

**MINUTES**  
**AUDITING SECTION EXECUTIVE COMMITTEE MEETING**  
**Thursday, January 12, 2006**  
**8:00 A.M to 4:30 PM**  
**Hilton Los Angeles/Universal Studios (Board Room)**

Present: Mark Beasley (President), Linda McDaniel (Past President) (absent 10:00 – noon for doctoral consortium), Ray Whittington, (Vice President—Academic) (absent 8:00 – 10:00 a.m. for doctoral consortium), Scott Showalter (Vice President—Practice), Kathryn Kadous (Treasurer), Kay Tatum (Secretary), Arnie Wright (Historian).

Guests at various times during the meeting: Gary Holstrum, Todd DeZoort, Mark DeFond, Dee Strahan, Dan Simunic, Jennifer Mueller, Bob Allen, Julia Higgs, Jim Bierstaker, Jay Thibodeau, Terry Neal, Jeff Wilks.

Beasley called the meeting to order at 8:20 a.m.

**Approval of Minutes (Kay Tatum)**

Tatum presented the minutes of the Executive Committee's (XC's) August 9, 2005 meeting in San Francisco. Beasley and Wright offered minor changes.

**Action:** Showalter moved and McDaniel seconded the motion to adopt minutes as modified. The motion passed unanimously.

**Business Conducted Since Previous Executive Committee Meeting (Kay Tatum)**

Tatum reviewed the business that the XC had conducted by electronic mail since its previous meeting.

Beasley moved and Kadous seconded the motion to approve the following nominations for the Auditing Section's (Section's) 2006 awards:

- (1) Outstanding Audit Educator Award: Jane Mutchler.
- (2) Distinguished Service in Auditing Award: William "Bill" L. Felix.
- (3) Outstanding Auditing Dissertation Award: Tina D. Carpenter for her dissertation entitled, "Partner Influence, Team Brainstorming, and Fraud Risk Assessment: Some Implications of SAS No. 99."
- (4) Notable Contributions to the Auditing Literature Award: Connie Becker, Mark DeFond, James Jiambalvo, and K.R. Subramanyam for their paper "The Effects of Audit Quality on Earnings Management," *Contemporary Accounting Research*, Vol. 15, No. 1 (Spring 1998) pp. 1-24.
- (5) Innovation in Auditing and Assurance Education Award: Cindy Durtschi for her case "The Tallahassee BeanCounters: A Problem-Based Learning Case in Forensic Auditing," *Issues in Accounting Education*, May 2003.

The motion passed unanimously. (October 18, 2005)

The XC unanimously approved the members, including the project lead, for 7 PCAOB research project teams—(1) Audit Confirmations, (2) Audit Firm Quality Control, (3) Audit Report Model, (4) Communications with Audit Committees, (5) Engagement Quality Review, (6) Financial Fraud, and (7) Related Party Transactions. (October 31, 2005).

The XC unanimously approved Charleston, South Carolina as the site for the Section's 2007 Midyear Conference. (December 26, 2005)

The XC unanimously agreed not to accept joint nominations for the Section's awards. (????, 2005)

### **Treasurer's Report (Kathryn Kadous)**

Kadous presented the Treasurer's report. The Section's cash balance increased by \$30,753.22 from 8/31/04 to 8/31/05, to a balance of \$215,544.17. Cash further increased by \$50,465.21 in the first three months of the 2006 fiscal year (9/01/05 – 11/30/05), to a balance of \$266,009.38.

The XC discussed the cash balance. Concern was expressed about a decrease in future revenues—for example, a reduction of journal subscriptions in today's electronic world. Concern was also expressed about increases in various costs—for example, increased costs for journals (special 25<sup>th</sup> anniversary journal, regular journal issues), *A:AJPT* editorial support (\$15,000 - \$20,000 per year in perpetuity), and the newsletter (providing hard copy to members 3 times a year). In light of the above concerns and the belief that the balance is reasonable compared to other large sections, the XC concluded that no action was necessary regarding the cash balance.

The XC discussed significant variations. The cost of the 2005 Midyear Conference was \$104,966.49, which was a 92.3% increase over the prior year. The XC noted that the 2005 Midyear Conference was a special meeting that included an extra day, extra features (e.g., speaker fees, audio visual costs), and higher registrations. It was also noted that the Section had built up cash to pay for the increased costs. KPMG contributed \$30,000 for the Conference, and Bill Messier contributed his editor's support for the special issue of *A:AJPT*. Printing and distribution costs were down 35.1% and 21.1%, respectively. Kadous said there were no differences in the number of issues. The XC concluded that the declines were most likely attributed to timing issues.

**Action:** McDaniel moved and Showalter seconded the motion to approve the Treasurer's report. The motion passed unanimously.

## **Results of Elections of Officers (Linda McDaniel and Mark Beasley)**

Tatum announced the results of the election for Section officers. Mark Peecher was elected Vice President—Academic, Trevor Stewart was elected Vice President – Practice, and Julia Higgs was elected Secretary. Beasley suggested that the XC members thank Larry Rittenberg, nominee for Vice President—Academic, and Billy Soo, nominee for Secretary, for their willingness to stand for election and to have served the Section if they were elected. There were 258 Section members who voted, which is less than 25% of the members.

**Action:** Beasley moved and Showalter seconded that the XC accept the results of the elections. The motion passed unanimously.

The XC discussed two election issues: (1) democratic election vs. nominated slate, and (2) voting participation. The XC agreed that the Section should continue the democratic election process; however, the XC would like to have more Section members vote.

**Action:** McDaniel moved and Beasley seconded that Section members who vote in the Fall 2006 officer election will have their names entered into a random drawing. The winner will receive a prize of free hotel and registration for the Charleston meeting. If the winner is unable to attend the Charleston meeting, the prize will go to next person drawn. The motion passed unanimously.

## **Update on PCAOB Research Synthesis Project Teams – 9 Projects (Mark Beasley and Kay Tatum)**

Beasley provided an overview of the process used to select the 9 research teams. The teams are posted on website. The teams were asked to attend the risk assessment team's presentation at the Midyear Conference on Saturday. Afterwards a meeting of team leaders and members is scheduled. Beasley and Gary Holstrum will preside over the meeting.

**Action:** Beasley will send to Section members an e-mail that announces the teams and directs members to the website where the teams are posted.

Holstrum attended the meeting to provide comments about the research syntheses projects. He spoke about the benefits of the research syntheses. He raised several issues related to the PCAOB research syntheses:

- (1) Should the teams use a template? The advantage of a template is that it provides structure and consistency. The XC agreed that templates offered several advantages, but it did not want to mandate the use of a template. Teams were chosen for their expertise.

- (2) Should the templates be combined to create a data base, which could be use for teaching (e.g. doctoral seminars) and researchers? The XC did not commit to a data base, but agreed to take a retrospective look at the data base issue.
- (3) What is the format of the final research synthesis? Published manuscript? Executive summary?
- (4) Is there opportunity to print articles in special issue? The XC concluded no. Wright pointed out difficulty in getting articles at same time. Furthermore, there is more value for an individual article that goes through due process. McDaniel has laid out the process with individual journals.

Holstrum discussed logistics about the upcoming AAA/PCAOB Conference. He also discussed PCAOB involvement in the program of the 2006 AAA annual meeting, which is scheduled in Washington, D.C. He said that the PCAOB has a strong appreciation for what the Section is doing.

#### **Update of 2006 PCAOB Conference (Linda McDaniel and Mark Beasley)**

Beasley provided an overview of the PCAOB Conference which is scheduled for February 2006 in Washington, D.C. The focus of the conference is the research syntheses projects. Participants invited include: project team members, the XC, Auditing Standards Committee Chair, Research Standards Committee Chair, *Accounting Horizons* editor Ella Mae Matsumura and *A:AJPT* editor Dan Simunic.

The Conference planning committee consists of McDaniel and Beasley representing the Section, Jane Mutchler representing the AAA, and Holstrum representing the PCAOB. The committee held a conference call in October and met in Washington, D.C. in November.

#### **Practice Advisory Council/PAC Research Initiative Update (Scott Showalter)**

Showalter reminded the XC about the two ongoing research efforts—(1) Vicki Hoffman and Mark Zimbelman for research about improving fraud detection, and (2) Christine Earley and Jennifer Joe for research about classifying internal control weaknesses.

He reported that the PAC met via conference call on November 16. Showalter and McDaniel represented the XC. There was a good discussion about what went right and what went wrong in the first round of research proposals. From the firms' perspective, the firms now have a better understanding of the firms' responsibilities after they commit to a research project. On the other hand, academics need to be educated about how to work with Big 4 firms.

**Action:** After the PAC picks the research team, have an orientation meeting. The meeting will provide an opportunity to congratulate the research team and provide guidelines about how to work with Big 4 firms.

Showalter reported that the firms are committed to the research initiative and that the PAC has strong interest in sponsoring a 2006 project. Showalter will announce at the business meeting the 2006 Request for Proposals for research to be sponsored by the PAC.

Going forward, the PAC needs to leverage non Big 4 members—GAO, AICPA, IIA. The question was raised, should the PCAOB be considered as a PAC member? In response, Wright looked at operational manual. It was suggested that the PAC's charge should be updated to reconcile the operating manual with what committee is doing.

Beasley reported that he had sent a letter to the PAC members in which he expressed appreciation for their service, invited them to the 2006 Midyear Conference in Los Angeles, and thanked them for coordinating a panel at the LA meeting.

#### **Review of Procedures for Award Nomination and Selection (Mark Beasley)**

Beasley reviewed the award nomination procedures. The objective of the nomination process is to have sufficient numbers of nominees. Regarding the selection process, Beasley raised the issue of whether multiple works are eligible for the Notable Contribution Award. The XC discussed the issue.

**Action:** Beasley moved that the Notable Contribution Award is for a single work and the XC will modify the operating policies to reflect that. Whittington seconded. The motion passed unanimously (Showalter not in room).

#### **Discussion of Operating Manual Potential Revisions/Action Items (Arnie Wright)**

Wright provided a status report about the operating manual. He noted that Karen Pincus had updated the manual in Fall 2005. He suggested that the manual be posted on the AAA website rather than a university website. He also suggested that the manual be updated for such items as format, a search feature, and color.

**Action:** McDaniel moved and Beasley seconded the motion to authorize Wright to update the operating manual for edits, formats, and consistency. The motion passed unanimously.

## **Discussion of Database for Members Interested in Audit Committee Service (Mark Beasley)**

Beasley lead a discussion about whether the Section should create a database for members interested in audit committee service. Showalter explained that most major companies use headhunters to fill audit committee positions. He questioned whether any one would come to the AAA website to identify potential audit committee members. It was noted that the AICPA has a service that permits its members to register.

**Action:** Beasley will get information about AICPA service and provide information to Section members about how to use AICPA website.

## **2006 Mid-Year Planning Committee Update—Last Minute Issues (Mark DeFond and Todd DeZoort)**

DeFond and DeZoort delivered the report of the 2006 Midyear Planning Committee.

As of January 4, 2006 (the date of the committee's report), there were 342 conference registrants—248 Auditing Section members and 94 International Section members. Beasley provided updated numbers. As of January 9, 2006 (the date of the XC meeting), the number of conference registrants had increased to 260 Auditing Section members and 10 additional onsite registrations were anticipated. Beasley commented that the number of Auditing Section registrants was slightly lower that last year's registration of approximately 300 people. Possible explanations for the lower attendance were: (1) overlapping memberships—that is, some Auditing Section members are also International Section members and may be registered as International Section members for this year's joint conference, and (2) the LA meeting site—there is some normal attrition for a West Coast meeting.

They provided an overview of the conference sessions—2 plenary sessions, 4 invited panel sessions, 16 concurrent paper sessions, 1 research roundtable, 1 business meeting, 2 lunches with award presentations, and 4 receptions including one special reception for auditing doctoral consortium participants. They reported that there were 84 papers submitted to the conference. They observed that the quality of the papers was high.

They thanked Beasley for his help in organizing the plenary sessions. Beasley in turn acknowledged the efforts of Jim Sylph for the Friday plenary session. They acknowledged the efforts of various individual who had worked hard to make the conference a successful event: (1) Julia Higgs for having the idea for the Saturday plenary session, (2) committee members Karla Johnstone, Terry Neal, Mark Peecher, Billy Soo, and (3) Wayne Thomas and Donna Street from the International Section.

Dee Strahan stopped by the meeting. She provided updated numbers about conference attendance. She discussed the Friday night reception and asked XC to establish a policy

for guests at the reception. Beasley asked how costs were allocated for the joint meeting. Strahan explained that she has 3 accounts—audit, international, and joint (receptions). The joint account will be prorated based on attendance.

**Action:** Beasley moved that the Section charge guests \$25 per event. Tatum seconded. The motion passed unanimously.

**Action:** Going forward, modify registration fee so that members can register guests for special events such as receptions.

Beasley asked Strahan for feedback about audio/video for concurrent sessions. She provided information about trends in annual vs. section meetings (LCD and screen; not overhead screen). This issue affects the 2007 Midyear Conference.

Beasley thanked Strahan and her staff for putting the conference together.

### **SSRN Possibilities for Midyear Meeting—Abstracts (Mark Beasley)**

The XC discussed the possibility of posting Midyear Meeting abstracts on SSRN. For example, SSRN recently announced the American Accounting Association – Management Accounting Section (AAA-MAS) 2006 Meetings abstracting journal.

**Action:** The XC agreed to ask Karla Johnston and Terry Neal to work towards an abstracting journal for the Section’s 2007 Midyear Conference.

### **A:AJPT Editor Selection Process (Mark Beasley)**

Beasley stated that the Section needs to start planning for the next A:AJPT editor. The announcement for the new editor must be made no later than January 1, 2008.

**Action:** The XC agreed that the call for nominations for editor of A:AJPT should appear in the Winter 2006 issue of *The Auditor’s Report*. There should be a follow-up call in the Summer 2006 issue. Nominations must be submitted by October 1, 2006.

The Editor Nominations Committee consists of Past Chair, Past Editor, plus 3 members. Beasley asked XC to start thinking about who would be good people to be on the committee.

### **A:AJPT Update (Dan Simunic)**

Simunic presented the editor’s report. He reported that there were 106 submissions (90 new and 16 revisions) in 2005. He observed that the number of new submissions is somewhat higher than in prior years; the mix of new submissions is heavily tilted toward

archival, economics based research; and about 20-25% of the papers are from outside the U.S. (i.e., have an author from a foreign academic university). Of the 90 new submissions, 2 (2%) were accepted, 37 (41%) were in process, and 51 (57%) were rejected. He commented that these manuscript results were similar to prior years. At year end, there were 54 manuscripts in inventory.

The average time for a review was 35 days, plus 5 days to process at submission and 3 weeks to process after the review. He said that his target turnaround time was 2 months. He believed the turnaround times were reasonable, but acknowledged that they were somewhat longer than under Bill Messier.

He reported that he would like to eliminate the “Practice Summary” page and replace it with a longer abstract. His underlying rationale was that the “abstract” and “practice summary” appear to be quite similar in most cases. Wright provided some background about the “practice summary.” The intent was to bridge to the practice community. The idea was to have the practice summary published in the *Journal of Accountancy*.

Simunic previewed the May 2006 issue of *A:AJPT*. He pointed out that most main articles were accepted by former editor Bill Messier. He said that likes the research notes and plans to continue them. He indicated that the May 2006 issue will include a statement of his editorial philosophy and a revised editorial board.

### **Communications Committee (Jennifer Mueller for Brian Ballou)**

Mueller presented the Communication’s Committee report. The Committee’s 5 key activities were:

- (1) Reconciling the AAA website with the Section’s website and developing a process for monitoring the Section’s website.
- (2) Determining the best mechanism for posting information on the Section’s website.
- (3) Updating the list of complimentary recipients of *A:AJPT*.
- (4) Identifying ways to elevate the impact of *A:AJPT* for business school deans.
- (5) Improving the readership of *The Auditor’s Report*.

**Action:** The Communications Committee should discuss and come to XC with a recommendation about the best mechanism for posting information on the Section’s website.

**Action:** The Communications Committee should update the list of complimentary recipients of *A:AJPT* and make recommendations to XC. The XC will approve the list.

**Action:** At the Section’s business meeting, the Communications Committee should make membership aware that the Section is providing members a printed copy of *The Auditor’s Report*. The Communications Committee should monitor if membership values the printed copy.

Beasley brought up one additional issue—the Section’s President sends periodic e-mails (i.e., Terry Sutherland type e-mail) to the Section’s members.

**Action:** The XC asked Mueller to get feedback about the e-mails from the Communications Committee.

### **Auditing Standards Committee (Bob Allen)**

Allen presented the Auditing Standards Committee’s report. The Committee’s two primary initiatives were:

- (1) Review of the COSO Report. The Committee prepared comment letter in response to the COSO exposure draft entitled *Internal Control Integrating Framework: Guidance for Smaller Public Companies*.
- (2) Input for Selection of PCAOB Research Teams. The Committee reviewed applications and made recommendations for 4 of 7 proposed teams.

In addition, the Committee worked with the XC on the concurrent session “Globalization Issues Affecting Standards Setting.” Bill Messier will moderate the panel that consists of John Kellas (IAASB), David Brown (PIOB), and Gary Holstrum (PCAOB). The session is scheduled immediately after the Friday morning plenary session.

Allen reported that the risk assessment research project is near completion. It has been submitted to the PCAOB. It has also been accepted by *Accounting Horizons* for the June 2006 issue. Risk assessment team members were Dana Hermanson (team lead), Bob Allen, Tom Kozlowski, and Bob Ramsey.

Allen asked the XC for input about future activities. McDaniel suggested looking at IAASB agenda. Whittington suggested monitoring ASB Audit Reporting Model. McDaniel suggested that he call Chuck Landes (Vice President – Professional Standards and Services, AICPA).

Beasley thanked Allen and his committee for responding to the COSO document. He also thanked the committee for its work in assigning PCAOB teams.

### **2006 Annual Meeting Coordinator (Julia Higgs)**

Higgs reviewed preliminary plans for the August 2006 meeting in Washington, D.C. Issues discussed included space requests, luncheon speaker, and panel sessions. She reported that there are 132 paper submissions, which is a record number.

She also discussed the issues related to whether to assign one reviewer per paper or one reviewer per session. The advantage of one reviewer per paper is more participation and higher quality review. The main disadvantage is finding more reviewers.

### **The Auditor's Report (Jim Bierstaker)**

Bierstaker provided an overview of the fall and spring issues of *The Auditor's Report*. Special features include: (1) an international auditing standards update by Roger Simnett, (2) a three-piece series about fraud by Joe Wells, and (3) a short article about what it's like to participate in a PCAOB research project team by Dana Hermanson. Bierstaker requested feedback about the printed issue of *The Auditor's Report*.

### **Education Committee (Jay Thibodeau)**

Thibodeau delivered the Education Committee's report. Committee activities have focused on two items.

One key activity has focused on SOX and how it has affected the audit education process. The Committee has put together a Friday panel that consists of 4 partners who have been involved in firm training. A pre-conference call was held to lay out some questions for the panel discussion.

**Action:** The Education Committee should prepare an article for *The Auditor's Report* that summarizes the key takeaways from tomorrow's panel.

A second activity has been to develop a proposal for an online audit journal. Thibodeau presented the proposal. He acknowledged work of Eric Johnson, prior chair. The proposal provided background information, described the purpose of the journal, identified initial operating issues, made suggestions about the editorial board, and presented key results from a survey about the proposed journal. He also identified other issues: (1) How often will the journal be published? (2) Will there be a charge for the journal? (3) Will there be a print version?

Discussion followed. The XC agreed that the value of journal is connectivity with teaching members and with practicing accountants. Future actions are to refine the proposal and discuss it with the AAA.

**Action:** Beasley moved and Kadous second that the XC approve the launch of the online journal based on the Education Committee's proposal with amendments, subject to AAA approval. The motion passed unanimously.

**Action:** Beasley moved that XC will select the first editor to ensure the timely launch of the inaugural issue. There will be a call for subsequent editors. Showalter seconded. The motion passed unanimously.

Beasley thanked Jay and his committee for their work, including pulling together the proposal for the online journal.

### **2007 Mid-Year Conference Program Committee (Terry Neal)**

Neal provided an update about the 2007 Midyear Conference. The 2007 meeting site and call for papers will be announced in Friday's business meeting.

The XC communicated the earlier discussions with Dee Strahan (audio video equipment) and Mark Defond and Todd Dezoort (suggestions).

### **CPE Committee Update (Charles Stanley)**

It was reported that the Chair of the CPE Committee was not responding.

**Action:** Ask Vice-Chair to start thinking about CPE for Charleston 2007.

### **Membership and Regional Coordinators Committee (Mark Beasley for Chris Agoglia)**

Beasley delivered the Membership Committee's report. Beasley reported that the Section's membership numbers are going up. The Section had 1467 members as of December 2005, and 1380 members as of December 2004. He reviewed the committee's key initiatives:

- (1) Free membership offer. Regarding free memberships, free membership offers were made to 333 people, 53, accepted, and 18 renewed their memberships.
- (2) Professional memberships. Regarding professional memberships, Showalter said that pricing is not the issue; instead, solving common issues is the issue.
- (3) Outreach through publication outlet.
- (4) Survey of auditing doctoral consortium participants. Regarding the survey, it was suggested that an e-mail be sent about the online survey.

**Research Committee (Jeff Wilks for Jay Rich)**

Beasley presented the Research Committee's report. The Committee participated in the selection of the PCAOB research synthesis project teams. The Committee also updated the research data base. Going forward, the Committee will work with Showalter for Requests for Proposals for PAC 2006 initiative.

The meeting adjourned at 5:00 p.m.