

The following email went out to the Auditing Section membership on April 19, 2011:

Greetings,

I am pleased to announce that the Auditing Section is assembling teams of researchers to develop syntheses of existing research related to key PCAOB standards-setting projects. As you may know, the Auditing Section, in coordination with Gary Holstrum and staff of the PCAOB, facilitated a similar synthesis effort with 9 research teams in 2005. It is a credit to Gary and the scholars participating in the first round of synthesis papers that we are embarking on a second round.

Auditing Section members interested in working on one of the teams should indicate their interest by following the instructions below no later than May 10, 2011. In order to provide timely information, research teams will be working at an aggressive pace to complete the projects. Before indicating your interest in serving, you should ensure that you will have adequate time to serve between June and December 2011 (some key topics, such as Auditor's Reporting Model will have an initial draft milestone of October 2011). We hope to notify members whether they have been selected for a team in June. The teams are expected to begin working immediately. It is anticipated that teams will have a meeting/call with the PCAOB in July to discuss their topic. We are excited to have this opportunity to provide potential practice and research implications to the PCAOB and the academic community.

Twelve teams of 3-4 scholars will be assembled to examine the following topics:

1. Audit Firm's Quality Control
2. Audit Quality Indicators
3. Auditor's Reporting Model
4. Using the Work of Internal Auditors
5. Fair Value and Estimates
6. Financial Fraud
7. Going Concern
8. Independence
9. Sampling
10. Service Organizations
11. Subsequent Events
12. Audits of Internal Control over Financial Reporting (ICFR)

At the end of this email, you will find specific areas of interest the PCAOB has for each topic; additional clarity will be provided when the teams meet with member of the PCAOB staff. In addition to the specific issues identified by the PCAOB, the synthesis papers are expected to address broader issues associated with the research topic. The objectives of each of the research teams are to (1) synthesize existing research that addresses the topic, including the specific areas of interest noted by the PCAOB and (2) highlight additional, relevant researchable issues. A primary goal is to provide the PCAOB Office of the Chief Auditor with a synthesis of research on the topic that could be informative in the development of auditing and related professional practice standards in that area. The research teams will be selected by the Auditing Section leadership of the Research, Standards, and Executive Committees. Members who participated in a first round synthesis project are encouraged to apply. A handful of topics this round are similar to topics in the first round, while we do not plan to reconstitute the identical project teams, we will not prohibit a member from serving on the same topic in the second round as they did in the first round. New scholars and PhD students are encouraged to apply.

We anticipate each research team will prepare a synthesis of publishable quality. While publication is not assured, each synthesis team in the first round produced at least one published paper. A summary of the first synthesis projects and related outcomes will be available shortly on the Auditing Section website.

EXPRESSION OF INTEREST IN A PCAOB SYNTHESIS RESEARCH TEAM

If you are interested in being considered for a synthesis team, please return the information requested below with your vita or resume to Synthesis2011@gsu.edu by **May 10, 2011**.

Participants interested in serving on teams should have adequate time to devote to the project between June and December 2011.

- 1. Name:**
- 2. University or Other Affiliation:**
- 3. Address:**
- 4. Email Address:**
- 5. Phone:**
- 6. Research Project Topic Areas of Interest (indicate 2 or 3 of the twelve topics you are most interest in):**
- 7. Please list other scholars with expertise in the topics you expressed interest in.**
- 8. Would you be willing to serve as a project team lead? Yes _____ No _____**
- 9. Please briefly indicate relevant background you have in this topic area, including any extant research you have done in this area. Also indicate reasons this topic area is of particular interest to you.**
- 10. Please indicate the number of hours per week during the June to December 2011 timeframe that you believe you can contribute to the project. Finally, be sure to indicate the weeks during this period of time in which you are not available to work on the project:**

Please email the completed "Expression of Interest" information, including your curriculum vitae or resume as an email attachment, to Jennifer Joe, Auditing Section Secretary, at Synthesis2011@gsu.edu by May 10, 2011.

Below is a summary of PCAOB specific issues of interest for each of the twelve research topics. Research papers are expected to synthesize research on the broader topic as well as address the specific issues identified by the PCAOB.

1. Audit Firm's Quality Control

A. Studies regarding the auditing firms' "tone at the top" that address (a) factors that might prevent the tone at the top from reaching individual audit engagement team members, and (b) impact such factors have on audit quality.

B. Studies regarding the auditing firms' risk monitoring processes that address how effective these processes are in identifying the root cause of audit deficiencies and remediating those deficiencies.

2. Audit Quality Indicators

A. Studies related to the audit quality framework published by the Financial Reporting Council (FRC) in February 2008 that address what impact the framework has had on the quality of audits performed by the firms who adopted the framework.

B. Studies related to the International Organization of Securities Commissions' (IOSCO) consultation report on Transparency of Firms that Audit Public Companies (September 2009) and the comment letters received on that report.

3. Auditor's Reporting Model

A. Studies related to specific information that investors want to be included in the auditor's report, and how investors would use that information in their decision making.

B. Studies related to investors' reaction to and use of the additional information provided in the auditor's reports in France (and possibly in other EU countries).

4. Using the Work of Internal Auditors

A. Studies that address how the internal auditors' work is used by external auditors (e.g., whether the external auditors consider the work performed by the internal auditor, or use the internal auditor for direct assistance and as part of the engagement team).

B. Studies that address whether there should be a threshold for using internal auditors to prevent dilution of the value of an external independent audit.

C. Studies of jurisdictions that prohibit the use of internal auditors for direct assistance, including the analysis of reasons for such prohibition.

5. Fair Value and Estimates

A. Updates related to the fair value and estimates studies since the first PCAOB Academic Research Synthesis project.

B. Studies related to:

- Indicators of management bias in fair value estimates.
- Tools developed to help the auditor identify management bias in fair value estimates.
- Best practices, and/or results of a survey of financial statement users, regarding the appropriate level of detail for the fair value-related disclosures.
- The extent of audit work performed with respect to issuers using pricing services or broker quotes to value securities.

6. Financial Fraud

A. Analyses of the updated COSO fraud study and feedback from investors, auditors, and academics.

B. Studies related to:

- Implications of the fact that most of the financial frauds involve top executives of the company on the

auditor's considerations of the risk of fraud, and the resulting audit approach.

- Complex transactions structured by management mainly for the purpose of achieving certain accounting results, and the auditor's response to such transactions.

7. Going Concern

A. Studies of the trend in the number of going concern opinions issued during the financial crisis and correlation between a going concern opinion and company's failure subsequent to receiving such an opinion.

B. Studies related to whether a going concern opinion can be used to predict the company's failure (e.g., bankruptcy, reorganization, liquidation).

C. Studies related to early warning indicators of financial distress, bankruptcy, reorganization, or forced liquidation.

8. Independence

A. Studies of the trend of non-audit service fees vs. audit fees at the Fortune 500 companies since 2002.

B. For companies with high percentage of non-audit fees paid to their external auditors, studies of the correlation between the percentage of non-audit service fees and the number of restatements.

C. Studies related to the types of new allowable non-audit services that auditing firms have developed for their audit clients.

D. Studies of specific non-audit services that are restricted in other countries but not in the U.S.

9. Sampling

A. Studies on the trends in audit sampling, potential challenges faced by auditors applying statistical and nonstatistical sampling.

B. Studies examining areas where sampling is applied and techniques that improve testing effectiveness.

C. Analyses of the provisions of ASB's redrafted AU sec. 350, Audit Sampling (and related audit guide) relative to ISA 530, and implementation of this standard by auditing firms.

10. Service Organizations

A. Studies of the trends in company's outsourcing of controls and processes to a service organization, including IT function, controller function, payroll, etc.

B. Studies of investors' reactions to such trends and their perception of the impact of such trends on the reliability of financial reporting and on audit quality.

11. Subsequent Events

A. Studies of examples of effective procedures the auditor can perform with respect to subsequent events.

B. Studies of (a) auditor's failures in detecting Type II subsequent events, requiring additional disclosure, and (b) potential areas for improvement in AU sec.560, Subsequent Events, relating to Type II subsequent events.

12. Audits of Internal Control over Financial Reporting (ICFR)

A. Studies of auditor judgment in audits of ICFR including auditor judgment in the following areas of integrated audits:

- Evaluating the impact of compensating controls on determining whether a control deficiency or combination of deficiencies is a material weakness.
- Determining, in multi-location audits, whether substantive testing should be performed at the locations at which the auditor conducted testing for ICFR purposes.

Regards,

Steve Glover