



THE AUDITOR'S REPORT

Volume 28, No. 2
Spring 2005

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Report of the President

Linda McDaniel



It is an exciting time and an honor to be the President of such an outstanding Section of the AAA. Since returning from New Orleans and our 2005 Midyear Conference (MYC), I have had numerous calls, emails, and personal comments suggesting that this was an outstanding meeting. As reported elsewhere

in this issue, the Midyear Conference drew a record attendance for both the Doctoral Consortium (50) and the MYC (303). We also celebrated another milestone with a conference commemorating the 25th Anniversary of *AJPT*.

In this report, I would like to acknowledge the speakers at the 25th *AJPT* Anniversary Conference and Doctoral Consortium and then briefly summarize the main events from the MYC and Business Meeting. I also would like to express my gratitude for the numerous people who worked behind the scenes to make this event such a success. I cannot acknowledge everyone involved, but please know that your efforts are appreciated.

On Thursday, we had over 160 attendees at the 25th

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Anniversary celebratory conference. Bill Messier commissioned three papers, selected four manuscripts, and invited comments from seven discussants that will be published in a special edition of *AJPT* later this year. In the first invited session, Mark DeFond (University of Southern California) and Jere Francis (University of Missouri-Columbia) spoke on the future directions of economic-based empirical research. In the second and third invited sessions, respectively, Hun-Tong Tan (Nanyang Technological University) presented his and Mark Nelson's (Cornell University) views on judgment and decision making research in auditing and Bill Kinney (University of Texas at Austin) provided an institutional — and historic — view of where we have come from, where we are, and the prognosis for the future of our profession. Joe Carcello (University of Tennessee), Ken Trotman (University of New South Wales), and Dan Simunic (University of British Columbia) provided insightful and thought provoking discussion comments for the three respective sessions. We look forward to seeing these presentations (and the invited papers and discussion comments) in print.

The 6th Annual Auditing Section Doctoral Consortium also was held on Thursday. There were 50 students in attendance at this year's Consortium, representing schools from across the country. Speakers included Bill Kinney (University of Texas at Austin), Mark Penno (University of Iowa), Steve Kachelmeier (University of Texas at Austin), Jere Francis (University of Missouri-Columbia), and Mark Peecher (University of Illinois). The Editors' panel, chaired by Karl Hackenbrack (Vanderbilt University), featured Mike Bamber (University of Georgia), Rick Tubbs (University of Iowa), and Zoe-Vonna Palmrose (University of Southern California). Many thanks go to the Doctoral Consortium Planning Committee, and particularly the Committee's chair, Mark Nelson (Cornell University), for developing this fine program. The Doctoral Consortium provides Ph. D. students with the

[AJPT Editors' Perspectives on the Past, Present, and Future of Auditing Research](#)

[AUDITING: A JOURNAL OF PRACTICE & THEORY Publication Report](#)

[2005 Mid-Year Business Meeting American Accounting Association - Auditing Section Statement of Cash Receipts, Disbursements, and Cash Balance](#)

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[ASB Update as of January 31, 2005](#)

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[Why We Should Consider Belief Functions in Auditing Research and Practice](#)

opportunity to interact on a personal level with some of our top scholars, and to hear perspectives on the main types of auditing research. Support for the Consortium is provided by the KPMG Foundation, over and above their support for the Midyear Conference. We again thank the KPMG Foundation for enabling the Auditing Section to provide this valuable benefit for our new scholars.

Before outlining the main events of the MYC, I would like to offer my heartfelt thanks to those who offer so much to the Auditing Section. First, my appreciation is extended to all the members of the Executive Committee. Their dedication is what makes the Section so beneficial for us all. The following is just one example of this dedication: Kay Tatum found it necessary to evacuate Miami during one of last year's hurricanes. She headed to Atlanta with very few possessions, but among those were the notes from her first Executive Committee meeting as Secretary this past August. This is not necessarily what I would have been concerned about protecting! Others have obviously noticed another of our Executive Committee's dedication and qualities — Joel Demski recently asked Scott Showalter (and Scott accepted) to be the next VP of Professional Relations for the AAA. Congratulations, Scott — and how lucky for AAA!!! They have no idea of the value of the asset they just acquired!! Thank you Kay and Scott — and my appreciation also to Jean Bedard, Jeff Cohen, Karen Pincus, and Mark Beasley — you all make this position quite enjoyable. Finally, while she is not a member of the Executive Committee this year, I would like to thank Julia Higgs for once again serving as our official photographer. We are fortunate to have her in our Section.

Second, I offer a very special thank you to the Midyear Conference Co-Chairs, Mark Peecher (University of Illinois) and Billy Soo (Boston College), and to the other members of the conference program committee:

[ASC comments on PCAOB's exposure draft "Proposed Ethics and Independence Rules Concerning Independence, Tax Services, and Contingent Fees."](#)

Calls for Papers, Nominations

[Call for Nominees for Election as Section Officers](#)

[12th Annual MYC Call for Papers and Volunteers](#)

[Call for Papers CAR Conference for 2005](#)

[Call For Papers 2005 ABO Research Conference](#)

[Call for Papers International Symposium on Audit Research \(ISAR\)](#)

[Announcement and Call for Papers Accounting Ethics Education and](#)

vice chairs Mark DeFond (University of Southern California) and Todd DeZoort (University of Alabama); and members Christine Earley (University of Connecticut), Marshall Geiger (University of Richmond), Doug Prawitt and Steve Glover (Brigham Young University). The Committee put together an outstanding program, with Billy Soo and Mark Peecher organizing the 25th AJPT Anniversary Conference as well. I am personally quite grateful for all they did to make the meeting a success. We owe appreciation to two others — Bill Messier and Mark Nelson — who put together the programs for the 25th Anniversary Conference and Doctoral Consortium, respectively. Both events were excellent and very well received.

Another very important factor in our ability to develop the tradition of high quality Midyear Conferences is the continuing generous support of the KPMG Foundation, which has provided funding for these meetings (including the Doctoral Consortium) since their inception. We thank all of the personnel of the KPMG Foundation for their generous support, and especially want to recognize Bernie Milano, who through the years has been instrumental in helping the Auditing Section, and Eddie Munson, who now serves as KPMG's Partner in Charge of Recruiting and Faculty Relations and also is a member of the KPMG Foundation Board.

Now I turn to the highlights of the MYC. The program began with a plenary session in which Cynthia Cooper (President of Cynthia Cooper Consulting) and Glyn Smith (Director of Internal Audit at MCI) spoke to a captivated audience. I believe I speak for most in attendance that an additional hour or two would have been very welcomed! Speaking from their personal experiences in the rise and fall of WorldCom not only left us with many lessons to take to our classrooms, but also provided food for thought for navigating our personal and professional lives. Many of us will take the 3 S's of ethical decision-making back to our

[Research at a Crossroads 10th Ethics Research Symposium](#)

[Call for Papers Eleventh World Congress of Accounting Historians](#)

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

[Auditing Home Page](#)

Summer 2005 Issue Deadline

The deadline for material to be included in the Summer 2005 issue of *The Auditor's Report* is April 30, 2005. The preferred format is a Word file attached to an email 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 April 30, 2005 to ensure timely publication of the issue:

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classrooms. We very much appreciate Cynthia's and Glyn's willingness to share their experiences at our meeting. I also would like to thank Jodi Swauger and the Institute of Internal Auditors (IIA) for providing special gifts to our speakers, a generous gesture that was greatly appreciated.

Thirty-three research papers were presented in paper sessions, as well as three instructional cases; 17 additional papers were at the Research Roundtable. These papers addressed a broad array of topics and research methods. In addition, there were several panel sessions, which were particularly useful in providing information to help improve our teaching and research. The plenary panel considered the topic of "Auditor Independence." This panel was sponsored by the Auditing Standards Committee. Gary Holstrum (PCAOB), Jean Wyer (PwC), and Zoe-Vonna Palmrose (University of Southern California) presented different perspectives on auditor independence. Those attending this panel session may never again view independence or Jean Wyer in the same way!

In addition, there were four other concurrent panels. On Friday, Jim Sylph (IFAC and Technical Director of IASB), John Fogarty (Deloitte & Touche LLP, Chair of the U.S. ASB and member of the IAASB), Tom Ray (PCAOB and Deputy Chief Auditor), and Jeanette Franzel (GAO and Project Manager for The Yellow Book) discussed "Global Convergence- near or far?" The audience learned about some of the accomplishments in achieving standards convergence to date, future challenges in that area, and also about the "Supreme Auditors" around the world.

Friday's program also included a panel sponsored by the Education Committee and the IIA on "Corporate Governance: New Directions for Management Education." The panel speakers included John J. Fernandes (AACSB), Scott Reed (KPMG Audit Committee Institute) and Jane Mutchler (Georgia State

The address of the Auditing
Section's Home Page on the
World Wide Web is:
<http://aaahq.org/audit/index.htm>

University and AAA President).

On Saturday, the Research Committee sponsored a panel featuring an elite lineup of past, current, and future AJPT journal editors. The panel entitled "An AJPT Editor's Perspective on the Past, Present and Future of Auditing Research" consisted of Dan Simunic (incoming AJPT editor), Bill Messier (current editor), Arnie Wright (past editor), and Bill Felix (former editor).

The fourth panel, sponsored by the Education Committee, focused on an important topic for educators. Paul Herring (AICPA), Richard Wood (Grant Thornton Canada), and Gary Peters (University of Arkansas) spoke on "IT Skills and Knowledge for Entry-Level Auditors: Are Educators Meeting the Needs of the Profession."

At our two luncheons, we presented our five annual awards celebrating the achievement of members in teaching, research, and service. This year's winners, who are at very different stages in their careers, are all truly inspiring in their commitments to all facets of educational endeavors. Tim Bell (KPMG), this year's winner of the Distinguished Service Award, is well known to us all because of his involvement in so many aspects of the Section, including having served as President of the Auditing Section. Scott Showalter (KPMG), the chair of the committee, presented the award but clarified that, because of the potential for perceived independence problems, he did not vote in the selection process!

Kathryn Kadous (Emory University) won the Notable Contributions to the Auditing Literature Award for her 2000 *The Accounting Review* article entitled, "The Effects of Audit Quality and Consequence Severity on Juror Evaluations of Auditor Responsibility for Plaintiff Losses." This year's award committee was chaired by Rachel Schwartz (University of Illinois). The article is notable for its title length as well as its contributions to

academic research.

Steve Albrecht (Brigham Young University) is this year's winner of the Outstanding Educator Award. Steve was recognized for his numerous contributions to auditing education, both in terms of his teaching as well as his research. His influence on practice issues was also quite evident. After announcing Steve as this year's recipient, Jean Bedard, chair of the award committee, indicated that Steve was unable to attend the conference because of recent back surgery. His attendance was missed, but his impact on the profession continues.

Tim Bell (KPMG) and Ira Solomon (University of Illinois) won this year's Innovation in Auditing and Assurance Award, for their innovative development of cases in strategic-systems auditing. The award selection committee, chaired by Karla Johnstone (University of Wisconsin–Madison), noted that the number of requested printed copies and downloads of these cases clearly showing the significance of their impact on our profession.

Shawn Davis (Georgia State University) is this year's winner of the Outstanding Dissertation Award for her thesis paper entitled, "Market Response to Auditor's Reports: A Reexamination of Auditor Materiality Thresholds." Vicky Hoffman (University of Pittsburg), chair of the award committee, presented the Dissertation Award to Shawn and also recognized Ron King with the Outstanding Dissertation Chair Award.

Let me turn now to a report on the Section's Business Meeting, which took place at the Midyear Conference. The Section's members voted this fall to fill the offices of VP–Academic (President-Elect) and Treasurer. The 260 members who cast votes elected Ray Whittington (DePaul University) as incoming VP–Academic (President-Elect) and Kathryn Kadous (Emory

University) as Treasurer. Ray and Kathryn will assume their positions at the Section's luncheon at the AAA Annual Meeting this August in San Francisco.

The Treasurer's report was also featured on the Business Meeting agenda. As you will note from this report (published elsewhere in this issue), the financial condition of the Section continues to improve. The Section's cash balance stood at \$217,107 on November 30, 2003 (the end of the first quarter of the current fiscal year), up from \$173,085 at the same time last year. Some of the increase is caused by different timing of certain events across years (given the AAA's cash basis system). In addition, \$30,000 is in escrow to cover the expenses of the 25th Anniversary Conference. However, this still represents a substantial increase over the previous period. Jeff reported that we should not expect to continue this trend because of the anticipated increase in Editor support and AAA charges. With this said, our financial condition and future are very sound.

Bill Messier (Georgia State University) presented the Editor's report for *Auditing: A Journal of Practice & Theory*, which also appears elsewhere in this newsletter. Bill's term will end this summer and he accepts his last submissions in May 2005. Our sincere thanks to Bill and his editorial board whose combined efforts have made this journal a high quality outlet for our research. We also thank Dan Simunic (University of British Columbia), who will be the journal's incoming editor this summer, serving for the next three years. We believe Dan's previous experience in editorial positions will serve to enhance the quality and reputation of our journal.

The Business Meeting also featured reports by Chairs or members of the Section's standing committees, through which much of the Section's work is done: Auditing Standards Committee (Roger Martin), Communications Committee (Jeff Payne for Kenny

Reynolds), Education Committee (Eric Johnson), Membership and Regional Coordinators Committee (Julia Higgs), and Research Committee (Mike Willenborg). I thank each of these individuals and their committee members for all of their efforts on behalf of our Section. I also wish to thank Jay Rich (Illinois State University), who is taking over for Mike Willenborg the remainder of this year and continuing as chair during 2005-2006 as well. Mike served as liaison to the PAC during the inaugural PAC-sponsored research program (discussed elsewhere in this report) and we appreciate his service and wish him well in his new editorial responsibilities. All of these committees have been actively involved in a variety of initiatives, and I encourage you to read the reports that are posted on our web site to see how these groups work to fulfill the mission of the Section. Our Auditing Standards and Research Committees are presently working with Gary Holstrum at the PCAOB to explore ways in which we can help the PCAOB in the standard-setting process. Julia Higgs (Florida Atlantic University), chair of the Membership and Regional Coordinators Committee, has worked on initiatives to increase membership numbers as the Section and AAA continue to experience declines in numbers overall. We are pleased to announce that the Executive Committee approved the granting of free one-year memberships to faculty who expressed an interest in auditing education but had not joined the Section. Julia's efforts resulted in 54 new members. We are certain that if these folks attended the recent MYC, they will join for a second year. We also continue to offer memberships to all Doctoral Consortium attendees. Finally, the section is working with E&Y and the AAA on ways to increase student enrollments in PhD programs—particularly those with an auditing interest. Those of you who are directors of PhD programs may wish to look for announcements on the AAA web site. Also, the section will keep you informed as we have more information.

I would appreciate your attention to one of the

initiatives undertaken by the Education Committee. Eric Johnson (IUPUI), as chair of this committee, is surveying members regarding the demand for an on-line journal with a focus on teaching and practice. Thus far, about 82 percent of those responding are in favor of establishing the journal. However, we would like a greater number of respondents prior to moving forward on this initiative. If you have an interest in a timely outlet for educational materials, please contact Eric. He would appreciate your input.

Next, I want to remind you of our upcoming meetings. This year's AAA Annual Meeting will be held in San Francisco, CA on August 7-10. Bryan Church (Georgia Tech), the Auditing Section's liaison to the AAA Annual Meeting Planning Committee, reports that submissions are up from last year. Approximately half of the submissions are archival papers, reflecting an increase in available audit fee and corporate governance data. In addition, AAA President and Auditing Section member Jane Mutchler (Georgia State University) has created a new forum — the New Scholar Concurrent Sessions — for this year's annual meeting. The purpose of these sessions is to promote the development of new scholars, members who received their Ph.D. since 2002. There should be an excellent program for Auditing Section members in San Francisco, and we hope the Section will be well-represented. Be sure to mark your calendars for the Section's usual Monday lunch.

As I am writing this report, we do not yet have a specific location for our 2006 MYC. We do know that the dates for our meeting will be January 12-14, 2006 and we will be in sunny Southern California. We are holding a combined meeting with limited overlap (about one-half day) with the International Section and are planning at least one joint reception. The planning of this meeting will go forward under the leadership of our Conference program chairs, Mark DeFond (University of Southern California) and Todd DeZoort (University

of Alabama). They will send out information and a call for papers as soon as we have a confirmed location.

Finally, as reported last year by Jean Bedard, there were two items under discussion at the Practice Advisory Council (PAC), a research initiative involving PAC sponsorship of research on specific topics of importance to the profession and an education initiative involving close interaction with academics to develop education-oriented events for meetings and educational materials. We are pleased to report that the PAC Research Initiative Task Force, chaired by John Fogarty, selected one proposal for sponsorship. Congratulations to Vicky Hoffman (University of Pittsburgh) and Mark Zimbelman (BYU). We are also pleased to report that KMPG has agreed to sponsor a second research proposal. Congratulations to Jennifer Joe (Georgia State University) and Christine Earley (University of Connecticut). Jean has prepared a more detailed reporting of the process and the supported research elsewhere in the Auditors' Report. Please see the announcement entitled "Practice Advisory Council Research Initiative Decisions."

In closing, I extend my sincere thanks to the members of all of the Section committees for their diligence in performing all the tasks necessary to achieving the Section's goals. It is an honor to work with you all. I also have had the privilege of being directly involved in the two 25th Anniversary MYC commemorations related to our Section — the 25th Anniversary of the Section itself and now the 25th Anniversary of AJPT, celebrated in Houston, TX and New Orleans, LA, respectively). As coined by Steve Salterio, I believe this duly qualifies me as one of the "dinosaurs." Yes, you probably had to be there....



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Summary of 2005 Midyear Auditing Conference New Orleans, Louisiana

By Mark Peecher and Billy Soo



The Astor Crowne Plaza Hotel, site
of the 2005 Midyear Conference.

The 2005 Midyear Meeting of the Auditing Section was held in New Orleans on January 14-15. The meeting was preceded by the 25th anniversary conference of the AJPT and the Doctoral Consortium. The meeting started with keynote speakers Cynthia Cooper and Glyn Smith, who were Vice-President and Senior Manager of Internal Audit of WorldCom when they uncovered the largest corporate fraud in US history. Cynthia and Glyn talked about how their team discovered the fraud as well as the challenges they faced in relaying their discovery to upper management. Peppering their speech with both humor and touching anecdotes, Cynthia and Glyn also talked about some measures that would reduce the likelihood of future corporate fraud and exhorted the audience to fulfill its role in influencing future accounting professionals.



Linda McDaniel with keynote speakers Cynthia Cooper and Glyn Smith,
former
Vice-President and Senior Manager of Internal Audit of WorldCom.

The meeting also included a plenary panel on "Auditor Independence," co-sponsored by the Auditing Standards Committee and moderated by Roger Martin, chair of the committee. Participants included Gary Holstrum, Deputy Chief Auditor of the PCAOB, Zoe-Vonna Palmrose, Professor at the University of Southern California and Jean Wyer, PricewaterhouseCoopers Partner. There were also separate panel sessions on global convergence of auditing standards, including speakers from the GAO, IAASB, ASB and PCAOB (sponsored by the Practice Advisory Council);

corporate governance in management education (co-sponsored by the IIA and education committee); AJPT editors' perspectives on auditing research (sponsored by the research committee); and meeting the IT skills and knowledge required of entry level auditors (sponsored by the education committee).

Thirty-three papers were presented in the concurrent sessions, including three education cases. Another seventeen papers were at the research roundtable. Total attendance was 306, up from last year's 281. Fifty students attended the Doctoral Consortium, with several more on a waiting list.

Section award winners were: Distinguished Service in Auditing: Tim Bell; Outstanding Auditing Educator Award: W. Steve Albrecht; Notable Contribution to the Auditing Literature Award — Kathryn Kadous; Innovation in Auditing and Assurance Education Award — Tim Bell and Ira Solomon; Doctoral Dissertation Award — Shawn Davis and advisor, Ron King.

Copies of the presentations made at the doctoral Consortium, along with copies of many of the papers and presentations featured at the meeting are available at:

<http://aaahq.org/audit/midyear/05midyear/2005AuditingProgram%20v.5.htm>

Many thanks are due to the KPMG Foundation and Bernie Milano for their faithful sponsorship and support; all reviewers, discussants, moderators and panelists; Dee and Fran and staff of the AAA; and The Ivey Group/Audit Analytics.com and McGraw-Hill/Irwin for co-sponsoring receptions.



Linda McDaniel thanks Mark Peecher and Billy Soo, co-chairs of the 2005 Midyear Conference Program Committee.

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A Report on the 25th Anniversary Conference of Auditing: A Journal of Practice & Theory

By William F. Messier, Jr., Editor

On January 13, 2005, the Auditing section sponsored a conference to celebrate 25 years of Auditing: A Journal of Practice & Theory. The Conference preceded the 2005 Midyear meetings of the section and was attended by more than 200 professors.

Seven papers were presented. Three of the papers are what I have referred to as "look back-look forward" pieces that reviewed prior research and then proposed topics that offer areas of research opportunity. The topics covered included economic-based archival research (Mark DeFond and Jere Francis), behavioral research (Mark Nelson and Hun Tong Tan), and the effects of regulation on auditing (Bill Kinney).

The four research papers were:

- Auditor Litigation Risk and Corporate Disclosure of Quarterly Review Reports, by Jagan Krishnan and Yinqi Zhang.
- Impact of the SEC's Public Fee Disclosure Requirement on Subsequent Period Fees and Implications for Market Efficiency, by Jere R. Francis and Dechun Wang.
- Negotiations Over Accounting Issues: The Congruency Of Audit Partner And Chief Financial Officer Recalls, by Michael Gibbins, Susan McCracken, and Steven Salterio.
- Why Do Auditors Over-Rely on Weak Analytical Procedures? The Role of

Outcome and Insensitivity to Precision,
by Steven M. Glover, Douglas F. Prawitt, and T. Jeffrey Wilks.

All of the papers will be published in a special supplement of the journal.

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2005 Midyear Auditing Section Doctoral Consortium

Mark Nelson

Chair of the Doctoral Consortium Planning Committee



Participants in the Doctoral Consortium, held just prior to the Midyear Conference.

The Auditing Section's 2005 Doctoral Consortium was held on January 13, in conjunction with the Auditing Section's 2005 Midyear Conference. KPMG Peat Marwick funded the Consortium, and was very generous in providing enough funding to allow the Consortium to increase from 40 to 50 participants in response to strong demand for attendance.

Participants enjoyed a program of presentations from a diverse group of outstanding scholars, including Bill Kinney (discussing "Research on Current Auditing Issues"), Mark Penno ("Analytical Auditing: New Directions"), Steve Kachelmeier ("Experimental Economics Research in Auditing"), Jere Francis ("Empirical Auditing Research"), and Mark Peecher ("Behavioral Auditing Research"). The Consortium concluded with a lively panel on issues related publishing, organized by Karl Hackenbrack, and including Mike Bamber, Mark Nelson, Zoe-Vonna Palmrose, and Rick Tubbs. Many of the Consortium presentations are available at:

http://aaahq.org/audit/midyear/05midyear/2005AUD_DCmeetinginfo.htm.

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Awards Presented at the 2005 Midyear Auditing Conference New Orleans, LA

Outstanding Auditing Dissertation Award Presented by Vicky B. Hoffman

The 2005 Outstanding Auditing Dissertation Award was presented to Dr. Shawn M. Davis, Visiting Professor at Georgia State University. Professor Ronald R. King (Washington University) was recognized as the dissertation chair. Dr. Davis' dissertation was entitled "Market Response to Auditor's Reports: A Reexamination of Auditor Materiality Thresholds." Her dissertation examines the impact of public disclosure of auditor materiality levels on market behavior. It is deserving of this award as it represents a timely and important research issue, one that has the potential to have a significant impact on audit practice. Davis conducts a creative examination in which she develops both economic and psychological theoretical arguments of investor market-behavior, and subsequently tests these theories in carefully crafted experimental markets.



Vicky Hoffman presents the Outstanding Auditing Dissertation Award to Shawn Davis, a Visiting Professor at Georgia State University (Ron King of Washington University was the dissertation chair).

Her results suggest that disclosing auditor materiality thresholds increases the accuracy of both investors' perception of the auditor's report and their subsequent asset pricing in the market, and induces a more uniform distribution of wealth across investors. The committee believes this research has a strong potential for publication in a scholarly journal; it makes an important and timely contribution to the audit literature, and represents a nice blend of economic and psychological perspectives to address an auditing issue that is of interest to practitioners. Many high-quality dissertations were nominated for the 2005 award. The Section solicits nominations from the membership by July 1 of each year and the award is presented at the following Midyear Conference.

2005 Distinguished Service in Auditing Award Presented by Scott Showalter

The 2005 Distinguished Service in Auditing Award was presented to Dr. Timothy B. Bell, currently the Director of Assurance Research at KPMG International's Audit & Advisory Services Center (AASC) in Montvale, NJ. This award recognizes exemplary service to the auditing profession, the Auditing Section and scholarly contributions to the field of auditing. Criteria for the award are outstanding career achievements over

a 20–25 year period that have a lasting and significant impact on the field of auditing, as evidenced by service to the auditing profession, the Section, or by significant contributions in scholarship.

Tim has served the Auditing Section in a number of ways. He has served on the Executive Committee of the Section as its Vice President-Academic, President, and Past President. He also served the Section as its Director of Research and as a member of the editorial board of the Section's journal *Auditing: A Journal of Practice and Theory*.

Tim has made significant scholarly contributions to the field of auditing. He has published numerous articles in leading scholarly journals, including *Journal of Accounting Research*, *The Accounting Review*, *Management Science*, and *Auditing: A Journal of Practice & Theory* and in many leading professional journals including *Accounting Horizons*, *Journal of Accountancy*, *Management Accounting*, and the National Association of Corporate Directors—*Governance Series: Ethics in the Boardroom*. He is co-editor of the AICPA monograph entitled *Auditing Practice, Research, and Education: A Productive Collaboration*. In 1998, this monograph was awarded *The Joint AICPA/AAA Collaboration Award*, which recognizes significant contributions to the auditing profession through collaborations between academics and practitioners. The monograph was also awarded the *Notable Contributions to the Auditing Literature Award* from the Auditing Section in 2003. Tim is co-author of the KPMG monographs *Cases in Strategic-Systems Auditing* and *Auditing Organizations Through a Strategic-Systems Lens*, the latter also being awarded *The Joint AICPA/AAA Collaboration Award* in 1998.

Tim is co-founder and Managing Director of the KPMG/University of Illinois *Business Measurement Case Development and Research Program*, a program that has provided significant support to higher education through the development and distribution of the two KPMG monographs and numerous classroom case exercises on contemporary topics in auditing. These materials have been used extensively by accounting and auditing professors in over 200 domestic and international universities. Several institutions have re-engineered the entire auditing course around the "strategic-systems auditing" concepts presented in these monographs, and evidence indicates that the number of faculty and students who have used these materials numbers in the hundreds of thousands.

Tim has served the auditing profession in a variety of ways, including service on the Auditing Standards Board's Fraud Task Force, the profession-wide Talent Task Force and on the Technical Working Group on Education for Forensic Accounting and Fraud Investigation, a curriculum development project sponsored by the U.S.

Department of Justice. Also, Tim has been featured and quoted in articles in the *Wall Street Journal* for his work on the development of new assurance services.

Prior to joining KPMG, Tim was a member of the Accounting Faculty at the University of Texas at Austin and he is a Certified Public Accountant and Certified Management Accountant.

2005 Innovation in Auditing and Assurance Education Award Presented by Karla Johnstone

Let me begin by thanking Linda McDaniel for asking me to serve as the Chairperson for this committee. It has been a pleasure working on this project and it has been inspiring to see the many examples of educational innovations that are taking place in auditing education. I express my appreciation to my fellow committee members, who conscientiously evaluated the nominees in a timely manner. It has been a pleasure working with each of these individuals — Lisa Gaynor at Georgetown University, Chris Hogan at Southern Methodist University, and Jane Kennedy at the University of Washington.

The purpose of the innovation in auditing and assurance education award is to encourage innovation and improvement in auditing and assurance education. The award recognizes a significant activity, concept, or teaching materials that are highly innovative, offer unique educational benefits, and are adaptable to other educational institutions or situations. I cannot think of two individuals better-suited to receiving this award than Tim Bell of KPMG and Ira Solomon of the University of Illinois.



Tim Bell and Ira Solomon received the 2005 Innovation in Auditing and Assurance Education Award, presented by Karla Johnstone. Tim Bell also received the 2005 Distinguished Service in Auditing Award at the midyear conference (not pictured).

Tim Bell is the Director of Assurance Research at KPMG International's Audit & Advisory Services Center in Montvale, NJ. He earned his Ph.D. from Oklahoma State University and was on the faculty at the University of Texas at Austin before joining KPMG. Tim has served the Auditing Section in many ways — as the Vice President-Academic, the President, and the Past President. He also served as the Director of Research and as a member of the editorial board of *Auditing: A Journal of Practice and Theory*. Tim is the co-founder, Executive Director, and Managing Director-Practice of the KPMG/University of Illinois (UIUC) *Business Measurement Case Development and Research Program* and the new KPMG and UIUC *Business Measurement Research Program*.

Ira Solomon is the R.C. Evans Endowed Chair in Commerce and Head of the Department of Accountancy at the University of Illinois. He earned his Ph.D. from the University of Texas at Austin. Ira has served the AAA and the Auditing Section in many ways. He was an Associate Editor of *The Accounting Review* and *Accounting Horizons*, and he has been the Auditing Section's Research Director, Vice-President (Academic), President, and Past-President. Ira is a co-author, with Tim Bell, of *Auditing Organizations Through a Strategic-Systems Lens*, which received the Joint AAA/AICPA Collaboration Award. Ira has served as Managing Director-Academic for

the KPMG/University of Illinois Business Measurement Case Development & Research Program, and he has been received several awards for Outstanding Dissertation Supervision.

Today's award recognizes Tim and Ira's special contributions to innovation in auditing education related to their extensive involvement in the *Auditing Organizations Through a Strategic-Systems Lens* publication, the subsequent teaching cases that have arisen out of this monograph, and the related research that others have conducted using the cases as a springboard. Tim and Ira's efforts to establish collaboration between auditing professors and accounting practitioners to provide real-life cases for use in auditing classrooms is very valuable and highly unique. We on the committee agree that Tim and Ira's efforts have assisted auditing education uniquely in two ways: (1) directly through the monograph and publication of the cases, and (2) indirectly through the knowledge that has been gained by academics and via subsequent research, which can then be brought back into the classroom. This multi-faceted approach is uniquely their own, and deserves special recognition because of its influence on auditing education for an enormous number of students and academics.

To give you all some idea of the magnitude of Tim and Ira's accomplishments, there have been over 50,000 hard copies distributed and 88,000 downloads of the monograph since 2000, and there have been 8,200 downloads of the case book since 2000. Regarding the cases, there have been 23 projects funded involving 55 faculty at 32 schools. Further, teaching notes have been distributed to faculty at 148 schools in the U.S. and 59 schools overseas. I believe that you will all agree that this is an impressive accomplishment, and I know there are many of you in this room that have benefited personally from the work of Tim and Ira in this regard.

2005 Outstanding Educator Award

Presented by Jean Bedard

I have the honor of announcing the 2005 winner of the Outstanding Educator Award. As stated in the Auditing Section's Operating Manual, this award is given for "exemplary contributions in research or teaching over a sustained period of time (10 to 15 years)". This year, the set of nominees for this award contained a number of very highly distinguished individuals. It was truly a difficult task to choose one from among them. I want to thank the committee (Zoe-Vonna Palmrose, Greg Trompeter, and David Kerr) for their hard work in making this choice.



Steve Albrecht, recipient of the 2005 Outstanding Educator Award.

The winner of the 2005 Outstanding Educator Award is Steve Albrecht. Steve is currently Associate Dean of the Marriott School of Business at Brigham Young University. Following receiving his Ph.D. at the University of Wisconsin, and a brief stint at the University of Illinois, Steve has spent his entire career at BYU. Steve is especially noted for his leadership in the field of fraud prevention and detection. He has been recognized in so many ways — time only permits mentioning a few selected items here. Among the honors he has received are Outstanding Educator Awards from the American Institute of Certified Public Accountants, the Federation of Schools of Accountancy, and Beta Alpha Psi. He has also received the "Cressy Award", the highest honor bestowed by the Association of Certified Fraud Examiners. In fact, a building is named after him at that Association's World Headquarters. At BYU, Steve has won awards for outstanding teaching, research, AND service!

Steve has published over 80 journal articles with a primary focus on fraud, in addition to several monographs, textbooks, and book chapters. In selecting Steve, the committee was especially impressed with the way in which his research has influenced his teaching, and his teaching has spread outside the boundaries of the University to the community as a whole. Steve truly exemplifies the best our profession has to offer.

2005 Notable Contribution to the Auditing Literature Award Presented by Rachel Schwartz

The 2005 Notable Contribution to the Auditing Literature award was presented to Katherine Kadous for her paper "The Effects of Audit Quality and Consequence Severity on Juror Evaluations of Auditor Responsibility for Plaintiff Losses" published in the July 2000 issue of *The Accounting Review*.

This study demonstrates that jurors are more likely to find an auditor negligent when investors suffer more severe consequences. This finding is important to auditing research because whereas prior research had assumed that standards of care were set ex ante, this study demonstrates that jurors' standards of care for auditors depend on the ex post outcomes of their audit decisions. The 2005 Notable Contribution to the Auditing Literature Award Selection Committee was composed of Rachel Schwartz (Chair), Joanna Ho, William R. Kinney Jr., Steven Salterio, and

Donald Tidrick.



Rachel Schwartz presented the 2005 Notable Contribution to the Auditing Literature award to Katherine Kadous (Emory University).

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Practice Advisory Council

Research Initiative Decisions Announced

The Auditing Section's Practice Advisory Council has selected two research proposals to support by providing participants from their firms. Participants will be provided jointly by several firms to Vicky Hoffman (University of Pittsburgh) and Mark Zimbelman (Brigham Young University), for their research on improving fraud detection. Also, participants from KPMG LLP will be provided to Christine Earley (University of Connecticut) and Jennifer Joe (Georgia State University) for their proposed research on classifying internal control weaknesses.

A two-stage process was used to make these decisions. A Task Force composed of PAC members and senior academic researchers initially screened all submissions, and the entire Practice Advisory Council made the final decisions. The PAC hopes to have another such initiative in upcoming years. However, because of the high demands on professional auditors' time imposed by Sarbanes-Oxley requirements during the current busy season, the next call for proposals with probably be made in early 2006.

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THE AUDITOR'S REPORT

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AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Summary of Auditing Standards Committee (ASC) Meeting

New Orleans, LA
January 14, 2005

Attendees:

ASB: Mike Glynn, Lyn Graham, Bill Messier

IAASB: Jim Sylph

GAO: Abe Akresh, Jeanette Franzel

PCAOB: Gary Holstrum

ASC: Roger Martin, Bob Allen, Tom Kozlowski, Evelyn Patterson, Bob Ramsay

Auditing Section Executive Committee — Scott Showalter, Kay Tatum, Jean Bedard, Mark Beasley

Auditing Standards Committee

- Roger Martin described the committee's historical involvement with standard setters and emphasized the intent of the ASC, Auditing Section, and the AAA to be flexible in the current standard setting regimes to provide relevant academic input to the standard setting process.

Auditing Standards Board

- Mike Glynn summarized items listed on the handout prepared for this meeting (see Bill Messier's ASB Update for a summary of the items discussed).
- He also distributed the Fall 2004 copy of "In Our Opinion ..." (available online at <http://www.aicpa.org/members/div/auditstd/opinion/index.htm>).
- The ASB is expected to reissue the exposure drafts of the suite of proposed standards related to the auditor's risk assessment process.
- Lyn Graham encouraged auditing academics to involve small firm practitioners in the discussion of ASB standard setting since the input of those practitioners will be highly

valued in the current standard setting process.

International Auditing and Assurance Standards Board

- Jim Sylph distributed and discussed the December 2004 "IAASB Meeting Highlights and Decisions" (available online at <http://www.ifac.org/IAASB/Meetings.php?year=2004> at "Meeting Summary").
- Jim highlighted the topic of the audit of group financial statements, led a discussion of the consideration of the impact if international standards do not allow for shared responsibility in the auditor's report, and encouraged critical thinking and research in this area and the area of divided responsibility more generally. The IAASB is expected to re-expose the exposure draft on this topic in their March meeting.

Government Accountability Office

- Jeanette Franzel discussed the GAO's interest in research related to the impact of Sarbanes-Oxley provisions, including the Act's effects on varying sizes of companies and partner rotation.
- She also expressed her office's willingness to talk to researchers working on the design of projects that might have policy implications of interest to the GAO.

Public Company Accounting Oversight Board

- Gary Holstrum discussed items on the list of topics previously prioritized by the PCAOB's Standing Advisory Group (available online at http://www.pcaobus.org/News_and_Events/News/2004-11-17.asp).
- The PCAOB staff is particularly interested in scholarly syntheses of prior research on topics on the SAG topic list.

Comments submitted to the PCAOB

The ASC has submitted comments to the PCAOB on the exposure draft "Proposed Ethics and Independence Rules Concerning Independence, Tax Services, and Contingent Fees." These comments are included elsewhere in this issue of The Auditor's Report and also can be found at:

<http://aaahq.org/audit/ASC/Auditing%20Standards%20Committee%20Comment%20PCAOB%20Docket%20017%2002-10-05.pdf>

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

***AJPT* Editors' Perspectives on the Past, Present, and Future of Auditing Research**

By Kevan Jensen, on behalf of the Research Committee

A useful exercise in any research field is to periodically take a step back and look at the big picture; to assess the field's progress and the direction it is — or should be — moving. Such an exercise helps us to see the forest (rather than just the trees), and helps direct us to the neglected (and more fertile) parts of the forest — to the mutual benefit of both the researcher and the research field. To this end, the Research Committee sponsored a panel discussion involving current and past editors of *Auditing: A Journal of Practice and Theory (AJPT)* at the 2005 Mid-Year Auditing Conference in New Orleans. The panel was comprised of Bill Felix (University of Arizona, former *AJPT* editor), Arnie Wright (Boston College, past *AJPT* editor), Bill Messier (Georgia State University, current *AJPT* editor), and Dan Simunic (University of British Columbia, incoming *AJPT* editor). Each participant presented his views on the development of auditing research and the likely directions for auditing research in the future. This article combines and summarizes their remarks.

Auditing has been a vibrant research area for many years, and there are many reasons to be optimistic regarding the future of auditing research. Auditing institutions continue to be an important element of effective corporate governance and the capital markets. As an enforcement mechanism, high-quality auditing may be more important than high-quality financial reporting rules. Environmental and other stresses on the delivery of high-quality audits continue to generate interesting research questions. In addition, institutional changes are being brought about because of Sarbanes-Oxley and other regulatory (national and international) developments.

The development of auditing research can be organized according to either research

method or research topic. Both approaches were manifest in the discussion.

Research Method

Historically, researchers have used different methods to study auditing: (1) theory/modeling, based on mathematical economics and game theory, (2) behavioral/JDM, which uses research methods from psychology and sociology, (3) archival/empirical, which uses data from audit firms and financial markets, and (4) experimental economics, which uses the laboratory market setting developed in economics. Each method has contributed to the development of auditing knowledge, and each method shows promise for continuing to do so in the future. Despite the tendency to specialize in one method, researchers should strive to be well-read across all methods.

Theory/Modeling

Theory/modeling research has provided an important basis for other research methods in the past, and is likely to continue to do so. A considerable amount of current auditing research lacks well-developed theory; modeling research can contribute significantly in this regard. Unfortunately, the dynamics of this area (e.g., high reviewer standards, publishing difficulties) have led to relatively few researchers using this method, only modest rates of research production, and avoidance of some topics because of modeling difficulties (e.g., three-person games). The result is that many areas still exist where modeling research can make contributions. Areas of particular relevance include the impact of Sarbanes-Oxley and other regulation, the globalization of firms being audited, and the demand for—and pricing of—audits. We also need better models of auditors' actions in reaching opinions, and of "strategic" financial reporting and auditing.

Behavioral/JDM

Behavioral/JDM research has been used to study many topics, including the opinion formulation process, auditor judgment, and team dynamics. Recent research has focused on client acceptance decisions and disagreements with clients over accounting principles. Despite its rich history, there is a general perception that behavioral research is becoming increasingly difficult to publish in the top accounting journals. This should not discourage researchers. Instead, it should be viewed as a challenge to improve research quality, to strengthen the theoretical foundations of the research, and to make the research more "saleable." Indeed, behavioral audit research continues to have a bright future, particularly in helping us understand some of the behavioral anomalies we see (e.g., where auditors do not behave as theory or "common sense" would dictate).

Archival/Empirical

Archival/empirical research also has a long and rich history, examining such issues as competition, audit pricing, auditor choice, audit production, audit litigation risk, corporate governance, and fraud. It has increased in prominence (relative to other areas of auditing research) during the last few years perhaps because of the increasing availability of audit-fee data in the U.S. market. It is currently the most popular method among auditing researchers, as measured by the number of submissions and published articles at top journals. The changing audit environment continues to provide a plethora of interesting ideas that can be examined using archival methods. These include the costs and benefits of Sarbanes-Oxley, and the pricing of audits post-SOX. They also include the development of theory on the role of auditing vs. other forms of monitoring, identifying better measures of market-perceived audit quality, and understanding the audit-opinion formulation process. Finally, there appears to be increasing interest in the differences in auditing economics across countries/cultures.

Experimental Markets

Experimental markets research has been somewhat limited in the past because of specialized training requirements and costs. Additional challenges have included the need for more and higher-quality economic theory development to support experimental markets. There have been some significant failures recently. However, there continue to be opportunities for research using experimental markets. Of particular note is the fact that this method provides a unique setting for obtaining evidence on alternative regulatory regimes. In addition, the underlying research in economics suggests that there is considerable room for "blending" with JDM research ideas.

Topic

Auditing research can also be classified by topic. Popular topics tend to change over the years, and they sometimes correlate with popular topics in the auditing profession—but not always. Recently, popular research topics have included auditor independence, risk assessment, program planning, and going concern reports. They have also included some of the more longstanding topics of interest in auditing, including auditor choice/change, audit fees, litigation risk, and audit performance both at the individual level (experience, memory, accountability), and at the firm level (size, specialization). However, many obvious topics are noticeably absent from this list. For example, few published studies have examined internal controls, continuous auditing, analytical procedures (particularly in the newer holistic audit approaches), or fraud detection. And relatively few published studies have examined non-North American data/settings. These topics are promising research areas.

Several other topics appear promising because of the continuing evolution of the

audit environment. For example, Sarbanes-Oxley has increased the salience of internal control assurance, corporate governance mechanisms, audit committees, and internal audit. Auditing from a global perspective is also increasing in relevance, with the implementation of international standards and the increasing need to coordinate global audits. Understanding audit environments outside the U.S. should contribute greatly in this regard. Other important future topics include continuous auditing, the effectiveness of analytical procedures in fraud detection, auditor independence (including independence in appearance), instilling professionalism and skepticism in auditors, fraud risk assessment, appropriate responses to fraud risk, audit sampling, and assurance services.

All four editors were enthusiastic about the future of auditing research—they all believe that there is still much to be learned. However, throughout the meeting, they stressed the importance of improving the overall quality of auditing research, and the importance of publishing auditing research in the top accounting journals. As the concluding speaker on the panel, Dan Simunic took some time to support the view that much interesting auditing research remains to be done (at least for another 25 years) by discussing twenty major open research questions. These questions represent just some of the neglected and fertile areas of the forest we call "auditing research." This presentation (and the rest of the editors' presentation slides) will be available at the Research web site in the near future:

<http://aaahq.org/audit/research.htm>.

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AUDITING: A JOURNAL OF PRACTICE & THEORY
Publication Report

William F. Messier, Jr., Editor
December 31, 2004

<u>Processing Activity</u>	<u>1/1/04-12/31/04</u>	<u>1/1/03 – 12/31/03</u>	<u>1/1/02 –12/31/02</u>
Submissions:			
New	58	72	75
25 th Conference	37		
Revisions	<u>27</u>	<u>28</u>	<u>59</u>
Total	122	100	134
Average days for review ¹	35	33	37

¹ Add 1-3 days to process at submission and 3-10 days to process upon completion of reviews.

Manuscripts in Inventory
by Revision Stage

New Submissions	14
R1	16
R2	8
R3	1
R4	
Total	39

<u>Manuscript Results</u>	<u>2004</u>		<u>Conference</u>		<u>2003</u>		<u>2002</u>	
Total Submitted	63		37		72		75	
Accepted	2	3%	4	11%	8	11%	18	24%
In-Process	29*	46%	5	13%	7	10%	2	2%
Rejected	32	51%	28	76%	57	79%	55	74%

<u>Manuscript Results</u>	<u>2001</u>		<u>2000</u>	
Total Submitted	77		79	
Accepted	24	31%	15	19%
In-Process				
Rejected	53	69%	64	81%

* Includes the 5 manuscripts carried over from the conference submissions.

2005 Mid-Year Business Meeting
American Accounting Association - Auditing Section
Statement of Cash Receipts, Disbursements, and Cash Balance
For Years Ended August 31 2003 and 2004 (Note 1)

	<u>2003-04</u>	<u>Annual (9/1 - 8/31) 2002-03</u>	<u>% Chg</u>
Receipts			
Membership Dues	\$43,500.00	\$49,603.00	(12.30)
Journal Subscriptions (Note 2)	62,746.00	59,995.00	4.59
Sales of Publications/Royalties	3,023.96	2,278.30	32.73
Journal Submission Fees	6,675.00	4,500.00	48.33
CPE (net)	2,650.00	1,450.00	82.76
Reimbursements/Contributions (Note 3)	16,137.34	30,865.62	(47.72)
Mid-Year Meeting Registration	37,820.00	29,260.00	29.25
Interest Income (Note 4)	<u>424.48</u>	<u>447.74</u>	<u>(5.19)</u>
Total Receipts	\$172,976.78	\$178,399.66	(3.04)
 Disbursements			
Awards	\$1,353.90	\$1,579.90	(14.30)
AJPT Printing	15,537.62	11,609.47	33.84
AJPT Distribution	8,677.12	8,060.17	7.65
AJPT Editorial Support	10,000.00	5,000.00	100.00
AJPT AAA Editorial Support	18,167.00	7,770.00	133.81
Newsletter (Note 5)	1,035.00	855.00	21.05
Mid-Year Meeting	54,578.43	64,224.82	(15.02)
Annual Meeting Costs	683.54	904.17	(24.40)
Committee Expenses	1,586.83	3,173.03	(49.99)
Council Fee	1,904.48	447.74	325.35
Postage and Miscellaneous Exp	<u>2,958.65</u>	<u>1,179.79</u>	<u>150.78</u>
Total Disbursements	\$116,482.57	\$104,804.09	11.14
 Cash Increase (Decrease)	56,494.21	73,595.57	(23.24)
Beginning Cash Balance	<u>128,296.74</u>	<u>54,701.17</u>	<u>134.54</u>
Ending Cash Balance (Note 6)	<u>\$184,790.95</u>	<u>\$128,296.74</u>	<u>44.03</u>

Notes:

1. The Statement of Cash Receipts, Disbursements, and Cash Balance was compiled from the monthly financial reports received from the American Accounting Association national office.
2. The nonmember rate for AJPT increased from 30 to 120 effective FY 03.
3. FY 04 receipts represent contributions to the section from KPMG to cover the 04 Mid-year Conference (MYC) deficit (\$11,744.57) and the 04 Doctoral Consortium cost (\$2,392.77). In addition, the section received \$2,000 from McGraw-Hill Irwin for a reception at the 04 MYC. The FY 03 receipts represent the following contributions: \$15,000 from KPMG to partially cover the 03 MYC deficit, \$10,500 from KPMG to partially cover the 03 Doctoral Consortium cost, \$2,000 from McGraw-Hill Irwin for a reception at the 03 MYC, and \$3,365.62 from the University of Southern California for a reception at the 03 MYC.
4. Reflects the allocation of interest income from the AAA headquarters to the section.

5. Because **The Auditors' Report** is now online, the costs include only AAA staff support (e.g., typesetting, layout).
6. \$10,000 per year starting with FY 02 is to be put in escrow to support a 25th anniversary AJPT conference. Therefore, \$30,000 of the ending balance as of 8/31/04 is restricted for this purpose.

2005 Mid-Year Business Meeting
American Accounting Association - Auditing Section
Comparative Statement of Cash Receipts, Disbursements, and Cash Balance
For First Quarter, ended November 30, 2003 and 2004 (Note 1)

	Quarter 1 (9/1 - 11/30)			
Receipts	<u>11/30/2004</u>	<u>11/30/2003</u>	<u>\$ Change</u>	<u>% Chg</u>
Membership Dues (Note 2)	\$13,990.00	\$13,161.00	\$829.00	6.30
Journal Subscriptions	21,120.00	23,040.00	(1,920.00)	(8.33)
Sales of Publications/Royalties	574.38	253.53	320.85	126.55
Journal Submission Fees	1,725.00	1,350.00	375.00	27.78
CPE (net)	0.00	1,000.00	(1,000.00)	(100.00)
Reimbursements	0.00	0.00	0.00	
Mid-Year Meeting Registration	17,040.00	11,625.00	5,415.00	46.58
Miscellaneous Receipts	<u>194.74</u>	<u>43.03</u>	<u>151.71</u>	<u>352.57</u>
Total Receipts	<u>\$54,644.12</u>	<u>\$50,472.56</u>	<u>\$4,171.56</u>	<u>8.27</u>
Disbursements				
Awards	\$4,038.90	\$0.00	\$4,038.90	NA
AJPT Printing	5,617.10	0.00	5,617.10	NA
AJPT Distribution	4,465.26	0.00	4,465.26	NA
AJPT Editorial Support	0.00	5,000.00	(5,000.00)	(100.00)
AJPT AAA Editorial Support	7,120.17	0.00	7,120.17	NA
Newsletter	0.00	0.00	0.00	NA
Mid-Year Meeting	0.00	0.00	0.00	NA
Annual Meeting Costs	0.00	0.00	0.00	NA
Committee Expenses	0.00	0.00	0.00	NA
Council Fee	0.00	0.00	0.00	NA
Miscellaneous Exp	<u>1,086.59</u>	<u>683.95</u>	<u>402.64</u>	<u>58.87</u>
Total Disbursements	<u>\$22,328.02</u>	<u>\$5,683.95</u>	<u>\$16,644.07</u>	<u>292.83</u>
Cash Increase (Decrease)	<u>32,316.10</u>	<u>44,788.61</u>	<u>(12,472.51)</u>	<u>(27.85)</u>
Beginning Cash Balance	<u>184,790.95</u>	<u>128,296.74</u>	<u>56,494.21</u>	<u>44.03</u>
Ending Cash Balance (Note 3)	<u>\$217,107.05</u>	<u>\$173,085.35</u>	<u>\$44,021.70</u>	<u>25.43</u>

Notes:

1. The Statement of Cash Receipts, Disbursements, and Cash Balance was compiled from the monthly financial reports received from the American Accounting Association national office.
2. As of January 9, 2004 there were 1,330 full members and 129 associate members: 1061 were U. S. members and 398 were foreign members. As of December 28, 2004, there were 1,317 full members and 149 associate members. Of these, 1,093 were from the United States and 373 were foreign members.
3. \$10,000 per year starting with FY 02 is to be put in escrow to support a 25th anniversary AJPT conference. Therefore, \$30,000 of the ending balance as of 11/30/04 is restricted for this purpose.



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

PCAOB Standards-setting Update

By Douglas R. Carmichael* and Gary L. Holstrum**

In this PCAOB Update for the *Auditor's Report*, we discuss the Public Company Accounting Oversight Board's (PCAOB or Board) standards-setting process, its planned standards-setting priorities for 2005 (with hyperlinks to related PCAOB briefing papers), and the need for research input related to its priorities. However, the views expressed are our own and do not necessarily reflect the views of the Board or other staff members. (Note: Underlined references in this article are hyperlinked to the specific related materials on the PCAOB Web site, www.pcaobus.org.)

Because the PCAOB's mission is central to what makes research relevant and applicable to solving societal problems, we believe the PCAOB potentially can have a significant influence on the nature of research, including the development of meaningful syntheses of relevant existing research and the encouragement of new research in key priority areas in which past research is limited. In this PCAOB Update, we attempt to communicate priorities for research that likely is relevant to PCAOB standards-setting activity in the near future. Our objective is both to encourage academic researchers to develop research synthesis articles in areas for which there is considerable relevant existing research and to conduct new research on relevant issues for which there is little or no existing research.

The Sarbanes-Oxley Act of 2002 directs the Board to adopt or establish

- Auditing and related attestation standards;
- Quality control standards; and
- Ethics and independence standards.

The Board adopted as its interim standards certain existing standards in each of these areas. The Board's interim standards include the following professional

standards in existence on April 16, 2003, to the extent not superseded or amended by the Board:

- [Interim Auditing Standards](#): Generally accepted auditing standards, as described in the AICPA's Statement on Auditing Standards (SAS) No. 95.
- [Interim Attestation Standards](#): AICPA Statements on Standards for Attestation Engagements (SSAE) and related interpretations and Statements of Position.
- [Interim Quality Control Standards](#): AICPA Statements on Quality Control Standards (SQCS) and (for firms that were members of the AICPA SEC Practice Section) certain SECPS requirements.
- [Interim Ethics Standards](#): AICPA Code of Professional Conduct Rule 102 on Integrity and Objectivity and interpretations and rulings thereunder.
- [Interim Independence Standards](#): AICPA Code of Professional Conduct Rule 101, interpretations and rulings thereunder, and Independence Standards Board Standards Nos. 1, 2, and 3 and Interpretations 99-1, 00-1, and 00-2.

The PCAOB Standards-setting Process—The Board places a strong emphasis on incorporating feedback from key constituent groups in its process of formulating PCAOB standards. The Board's Standing Advisory Group (SAG) plays an important role in this process and comprises approximately 30 individuals with backgrounds as auditors, preparers, and users of financial information of public companies as well as a few individuals who are current or former professors or regulators. Currently, six organizations have observer status on the SAG and may speak at the meetings. These organizations are (alphabetically) the Auditing Standards Board (ASB), Department of Labor (DOL), Financial Accounting Standards Board (FASB), Government Accountability Office (GAO), International Auditing and Assurance Standards Board (IAASB), and Securities and Exchange Commission (SEC or Commission). The PCAOB has observer status with the IAASB and with the Financial Accounting Standards Advisory Council, User Advisory Council, and Small Business Advisory Group of the FASB.

Prior to the Board's issuance of a proposed standard, the PCAOB staff typically prepares a briefing paper of related issues for the SAG, the SAG discusses the issues at an open meeting, and the Board and its staff consider the SAG discussion when developing a proposed standard. [The Standing Advisory Group section of the PCAOB Web site](#) contains information that should be especially helpful to auditing researchers, educators, and students, including SAG meeting agendas and briefing papers related to agenda items. Audio webcasts of each meeting are available from the PCAOB home page at www.pcaobus.org.

The PCAOB standards-setting process is an open, deliberative process that

generally includes an opportunity for public comment. Typically:

- The Board issues a proposed standard at an open meeting.
- The Board establishes a public comment period.
- The proposed rule and comments are published on the Board's Web site under Rulemaking.
- The Board considers comments on the proposed standard.
- The Board holds another open meeting to consider adoption of a final standard.
- The Board submits the final standard to the SEC for its approval.

Once the PCAOB has submitted a standard for Commission approval, the Commission follows procedures established in the Securities Exchange Act of 1934 and related Commission rules to publish notice of the standard in the Federal Register, and, except in unusual cases, seek additional public comment. If the SEC approves the standard after this procedure, it becomes effective and is enforceable by the PCAOB and SEC. PCAOB rules do not take effect unless approved by the Commission.

Standards-setting Developments to Date—The PCAOB has issued three auditing standards, a series of staff questions and answers (Q&As), a [rule on terms used in the Board's standards](#), and a proposed rule on independence and contingent fees and tax services. The three final auditing standards are:

- [Auditing Standard No. 1](#), References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board.
- [Auditing Standard No. 2](#), An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements (and a [related conforming amendments rule](#)).
- [Auditing Standard No. 3](#), Audit Documentation.

[Staff Q&As](#) present the staff's opinions in response to questions related to the implementation of PCAOB standards. The staff has issued 37 Q&As related to implementation of Auditing Standard No. 2, on auditing internal control over financial reporting, and 10 Q&As related to audits of financial statements of non-issuers in accordance with PCAOB standards (as of the end of January 2005).

On December 14, the Board [proposed ethics and independence rules concerning independence, tax services, and contingent fees](#). With respect to contingent fees, the proposal indicates that a registered firm is not independent if the firm or any affiliate provides any service or product to an audit client for a contingent fee or commission

or receives from the audit client, either directly or indirectly, a contingent fee or commission. With respect to tax services, the proposal indicates that a registered firm is not independent if it provides:

- Any tax service to an officer in a financial reporting oversight role at the audit client or
- Any non-audit service to an audit client related to planning, or opining on the tax treatment of transactions that are
 - Listed tax transactions,
 - Confidential tax transactions, or
 - Certain aggressive tax transactions.

The PCAOB comment period ended on February 14, 2005.

Standards-setting Priorities for 2005—At its November 2004 meeting, the SAG considered the following topics as potential priority projects for 2005.

- **Financial Fraud** (including revenue recognition and significant unusual accruals). The Public Oversight Board's Panel on Audit Effectiveness ("Panel") has recommended providing more definitive guidance with respect to a number of items including related parties and transactions with these parties as well as auditing unusual loss reserves. An important research area is the effect of SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, on audit practice, including (1) the question of whether audit quality has improved as a result of SAS No. 99, and (2) the identification of areas in which additional or alternative auditing procedures or other guidance may be necessary. The PCAOB staff prepared a briefing paper on financial fraud detection for the September 2004 SAG meeting. This briefing paper is available on the PCAOB Web site.

GAAS Hierarchy and Codification of auditing standards. These projects are separate, but closely related. The ASB established a hierarchy of auditing standards in 2001 when it issued SAS No. 95, *Generally Accepted Auditing Standards*. That standard identified three categories of auditing literature: (1) auditing standards, which had the highest level of authority and consisted of the ten generally accepted auditing standards and the Statements on Auditing Standards (SAS); (2) interpretative publications, which had a lower level of authority and consisted of SAS Interpretations, SAS Appendices, Audit and Accounting Guides cleared by the ASB, and AICPA Auditing Statements of Position; and (3) other auditing publications, which had no authoritative status. The underlying basis for authority of auditing literature changed significantly when the Sarbanes-Oxley Act shifted the authority to establish auditing and

related professional practice standards for the preparation and issuance of audit reports of public companies to the PCAOB. The PCAOB staff prepared briefing papers for each of these projects for the November 2004 meeting of the SAG.

- **Communications with Audit Committees**. A PCAOB briefing paper on communications with audit committees was prepared for the June 2004 SAG meeting and is available on the PCAOB Web site.
- **Engagement Quality Review**. A PCAOB briefing paper on engagement quality reviews (previously called concurring or second partner reviews) was prepared for the June 2004 SAG meeting and is available on the PCAOB Web site.
- **Related Parties**. A PCAOB briefing paper concerning related parties was prepared for the September 2004 SAG meeting and is available on the PCAOB Web site.

Consistency of Application of GAAP. The FASB issued an exposure draft in December 2003 that, among other things, would require companies to restate their financial statements when implementing a newly effective FASB accounting standard. To ensure that investors understand whether a restatement is due to a new accounting standard or to an error, AU sec. 420, which requires a separate explanatory paragraph in the auditor's report when a company makes certain changes in accounting principles, could be amended to require explanatory paragraphs about restatements, when applicable. The PCAOB staff has not developed a separate briefing paper on consistency of application of GAAP, but an abbreviated discussion of the issue is included in a briefing paper on "Prioritization and Review of Existing Standards, Including Consideration of New Standards," which was prepared for the June 2004 SAG meeting and is available on the PCAOB Web site.

- **Confirmations**. The PCAOB briefing paper on confirmations was prepared for the September 2004 SAG meeting and is available on the PCAOB Web site.
- **Auditing Fair Value**. A briefing paper on auditing fair value was prepared for the September 2004 SAG meeting and is available on the PCAOB Web site.
- **Quality Control**. The PCAOB staff discussed quality control issues in two

briefing papers. The first briefing paper, an overview of quality control issues, was prepared for June 2004 SAG meeting and the second briefing paper, specifically addressing the elements of quality control, was prepared for the November 2004 SAG meeting. To locate the first briefing paper on the PCAOB Web site, click "Standards," "Standing Advisory Group," "June 21-22, 2004 SAG Meeting," "[Quality Control](#)." To locate the second briefing paper, click "Standards," "Standing Advisory Group," "November 17-18, 2004 SAG Meeting," "[Elements of Quality Control](#)."

- **[Risk Assessment](#)**. The auditing standards related to risk assessment have not been revised substantively in many years. The IAASB and ASB had a joint project on risk assessment for several years, with the IAASB issuing its risk assessment standards in 2003 and the ASB currently working to re-expose its proposed risk assessment standards.

Some key risk assessment issues that may be appropriate for research include:

- The nature of the audit risk model and appropriate adjustments for fraud risk and for auditor knowledge of the business.
- The reliability of auditor assessments of risk model components.
- The effect of various audit approaches on the reliability of audit risk assessments.
- The ability of various substantive analytical review procedures to detect (or signal a higher likelihood) of material fraud or other material misstatement.
- Whether auditor knowledge of the business is a valid, empirically justifiable substitute for audit evidence gained from substantive tests of details and, if so, the extent to which such substitution is valid and empirically justifiable.

A briefing paper on risk assessment was prepared for the February 2005 SAG meeting and is available on the PCAOB Web site.

- **[Auditor's Reporting Model](#)**. A briefing paper on the auditor's reporting model was prepared for the February 2005 SAG meeting and is available on the PCAOB Web site.

The PCAOB and Research—Relevant academic research can be a powerful force to inform and enhance the quality of standards-setting decisions. The future role that academic research will play in the PCAOB standards-setting process depends on a

number of factors, including the extent to which:

- Issues that may be the subject of PCAOB standards-setting are transparent to academic researchers and others who are in a position to identify, evaluate, summarize and meaningfully synthesize relevant extant research.
- Academic researchers or others with appropriate research background are motivated to identify, evaluate, summarize, and meaningfully synthesize existing research that is relevant to standards-setting priorities and communicate the synthesized findings to those who make the critical policy decisions regarding future standards.
- Editors of leading academic journals are willing to publish well-researched and well-written syntheses of research that is relevant to future standards-setting priorities, or other mechanisms are found and used to publicize the research syntheses.

In this PCAOB Update, we have attempted to communicate priorities for research that likely is relevant to PCAOB standards-setting activity in the near future and hope the information is useful to auditing researchers, educators, students, and others who have an interest in the standards-setting process.

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**Gary L. Holstrum is Associate Chief Auditor and Director of Research at the PCAOB.

Comments about the article or related research may be emailed to holstrumg@pcaobus.org.

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ASB Update as of January 31, 2005

**William F. Messier, Jr., Georgia State University
Academic Member of the Auditing Standards Board
Chair, International Auditing Standards Subcommittee**

Since my last report, the activities of the ASB have increased significantly. Of particular importance is the decision by the AICPA to base US auditing standards on the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).

The ASB has a number of significant projects in progress:

Risk Assessment

- In December 2002, the ASB approved an exposure draft consisting of a suite of seven proposed Statements on Auditing Standards related to the auditor's risk assessment process. That exposure draft was a joint effort of the International Auditing and Assurance Standards Board (IAASB) and the ASB. The IAASB issued their ISAs in 2004.
- At its December 2004 meeting, the ASB concluded that the revised exposure drafts should be reexposed for comment.
- The ASB expects to vote to issue the revised exposure drafts in April 2005 with a 120-day exposure period, and to issue the final standards at the end of 2005, effective for audits beginning after December 15, 2006.
- This suite of standards will have a significant effect on audit practice and education.

Audit Documentation

- At its December 2004 meeting, the ASB voted to issue an exposure draft of a proposed SAS that would amend SAS No. 96, *Audit Documentation*.

Reporting on Internal Control Task Force

- Revising AT 501, *Reporting on an Entity's Internal Control Over Financial Reporting*
 - The Audit Issues Task Force discussed the revision of AT 501 at its December 2004 meeting.
- Revising SAS NO 60, *Communication of Internal Control Related Matters Noted in an Audit*.

Use of a Specialist

- The ASB had been working on a specialist project that was sent to the IAASB for their consideration. The ASB fully expect them to take on the project and the ASB will work from their exposure draft.

Audit Report

- This task force is revising SAS No 58, *Reports on Audited Financial Statements* (AU sec. 508), in light of the International Auditing and Assurance Standards Board s recently issued International Standard on Auditing, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*, and PCAOB Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the PCAOB*.

Other topics that will be addressed by the ASB include:

- Clarity project.
- Audit materiality.
- Group audits/principal auditor.
- SAS No. 70 and Guide revisions.
- Related parties.
- Accounting estimates.

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Have You Seen...?

Sudip Bhattacharjee, Virginia Tech

James L. Bierstaker, Villanova University

Dennis M. O'Reilly, Xavier University and

Evelyn Patterson, SUNY-Buffalo

Editors' note: The editors would like to thank John T. Reisch, East Carolina University for his years of service to "Have you Seen...?" John's term as a contributor ended as of the Fall 2004 issue. We welcome and thank **Sudip Bhattacharjee, Virginia Tech**; and **Evelyn Patterson, SUNY-Buffalo** as new contributors.

"Electronic versus Face-to-Face Review: The Effects of Alternative Forms of Review on Auditors' Performance," by J. Brazel, C. Agloglia, and R. Hatfield, *The Accounting Review* (Volume 79, Issue 4, 2004): 949-966.

This study examines the effects on audit workpaper preparers of using two different methods of review: face-to-face and electronic review. The study also compares both review groups to a control group that did not anticipate a review. The authors find that preparers anticipating a face-to-face review felt more accountable, were more concerned with audit effectiveness, produced higher quality judgments, were less efficient at their task, and were less likely to be inappropriately influenced by prior year workpapers than preparers in both the electronic review and no-review conditions. Interestingly, electronic review preparers generally did not differ from the no-review group. This may suggest that it is how a review is to be conducted, and not merely the expectation that a review will occur, that affects the decision maker's judgments and perceptions.

"Audit Anticipation: Does it Impact Job Performance?," by A. A. Neidermeyer and P. E. Neidermeyer, *Managerial Auditing Journal* (Volume 20, Number 1, 2005):

19-29.

This study conducted an experiment with 90 students as participants to investigate if anticipation of an audit affects performance in an accounting task. The results indicate that participants made fewer errors in preparing vouchers when an audit was anticipated, based on information about the scope of the audit conveyed by management. Future research could attempt to replicate these findings with internal auditors or accounting personnel.

"Gaps in Guidelines on Audit Committees," R. G. Walker, *Abacus* (Volume 40, Issue 2, 2004): 157-192.

This study traces the history of audit committee responsibilities, beginning with negotiating with auditors and reviewing financial statements in the 1940s, and evolving to oversight of internal management in the 1970s. The author argues that gaps continue to exist in the contemporary guidelines given to audit committees, including the audit committee charters of Australia's top 200 listed companies, and proposes a model charter that may contribute to improvements in audit committee effectiveness.

"The Effects of Alternative Justification Memos on The Judgments of Audit Reviewees and Reviewers," by C. P. Agoglia, T. Kida, D. M. Hanno, *Journal of Accounting Research* (Volume 41, No. 1, 2003): 33-46.

Prior research has shown that requiring justification of judgments can result in differences between auditors required and auditors not required to justify their judgments. In this study, the authors examine the impact of using three different justification memos: supporting, balanced, and component memos. Using a comprehensive control environment case based upon an actual client that experienced fraud, they find that the justification memo utilized can affect the judgments of auditors preparing the memos, as well as the judgments of auditors who review their work. Specifically, the results indicate that auditors using the component memo thought that the firm's control environment was more likely to prevent fraud as compared to the supporting and balanced memo groups.

"Auditor Detected Misstatements and the Effect of Information Technology," by W. Messier, A. Eilifsen and L. Austen, *International Journal of Auditing* (Volume 8, 2004): 223-235.

Given the increase in the use of information technology (IT) by audit clients, the

authors investigate (1) whether IT affects the procedures auditors use to detect misstatements and (2) whether the causes of detected misstatements differ on the basis of whether the client's information system is computerized. A questionnaire was sent to the six largest accounting firms in Norway. Relative to studies completed in the late 1980s, the results suggest that auditors have increased the use of tests of details relative to attention directing procedures. In addition, the major causes of misstatements tended to be the result of IT-related internal control problems and training and workload issues regarding accounting personnel. This was especially true for business processes that were computerized relative to those that were not.

"Benchmarking Audit Committee Effectiveness in Financial Reporting," by J. Song and B. Windram, *International Journal of Auditing* (Volume 8, 2004): 195-205.

The authors examine a sample of UK companies that were subject to adverse rulings by the Financial Reporting Review Panel to test the impact of board and audit committee characteristics on the probability of compliance with reporting standards. The results suggest that board independence promotes audit committee effectiveness and that director financial literacy may assist as well. Surprisingly, the results suggest that multiple directorships may have a positive impact on audit committee effectiveness.

"Internal Auditors and Job Stress," by L. Larson, *Managerial Auditing Journal* (Volume 9, 2004): 1119-1130.

A survey was used to gather data from a sample of internal auditors in the United States to study the issue of job stress. Respondents indicated that organizational job stressors in their work environment were more a source of stress than were individual job factors. Specifically, respondents reported that they would like to be paid more and to have greater input into the decision-making processes relating to their jobs. Company politics and lack of training and development opportunities were other major sources of stress.

"Mail Survey Reliability Through Follow-up Mailings: The Case of Auditor Changes," by K. Dunn and H. F. Huss, *Managerial Auditing Journal* (Volume 9, 2004): 1048-1054.

The authors address two problems with mail surveys response rates and unreliable information. The analysis presented examines the effects of increased pressure to respond to mail surveys on the reliability of survey responses. The findings suggest that increased pressure to respond decreased the reliability of the information

obtained. In addition, personalization of the survey increased the reliability of responses. The type of auditor change was a significant determinate of response reliability, but companies with greater financial distress were no more likely to give unreliable responses concerning the independent auditor changes.

"Are Big Four Audits in ASEAN Countries of Higher Quality than Non-Big Four Audits?" by I. Khurana and K. Raman, *Asia-Pacific Journal of Accounting and Economics* (Volume 11, No. 2, 2004).

The authors investigate whether reputation concerns cause Big 4 auditors to provide higher quality audits than non-Big Four firms in ASEAN (Association of South East Asian Nations) countries where litigation exposure is low or nonexistent. The study uses quality of reported earnings (earnings conservatism) as a proxy for audit quality. The results suggest that for the period examined (1990–1996), Big 4 audit firms did not provide higher quality audits than did non-Big 4 audit firms in these countries.

"Audit Pricing Following Mergers of Accounting Practices: Evidence from Hong Kong," by M. Firth and T. Lau, *Accounting & Business Research*, (Volume 34, 2004): 201-214.

The authors test for changes in audit pricing for two mergers of auditing firms. The results suggest that a 1997 merger of local firm Kwan Wong Tan & Fong (KWTF) with international firm Deloitte Touche & Tohmatsu (DTT) was followed by an increase in audit fees charged to incumbent KWTF clients. In contrast, a merger of Coopers & Lybrand (CL) and Price Waterhouse (PW) did not result in any significant change in audit fees. A pre-merger fee premium that PW enjoyed over CL persisted after the merger. The authors theorize that the clients of CL were unwilling to pay higher fees after the merger or that the merger created audit efficiencies that were passed on to the clients.

"Impact of the Timing of Receipt of an Inherited Explanation on Auditors' Analytical Procedures Judgments," by W. Green, *Accounting & Finance*, (Volume 44, 2004): 369-392.

The author examines whether the timing of receipt of an inherited explanation (before or after self-generating explanations) affects auditors' hypothesis generation. The results suggest that, consistent with a facilitation effect, more non-error explanations are generated by auditors initially inheriting a non-error explanation. In addition, consistent with a recency effect, the initial likelihood assessed for the inherited explanation was higher when it was received after self-generation of alternatives.

Despite these initial differences, the timing of the inherited explanation did not significantly affect the auditors' information search, evaluation processes or outcome performance (in terms of cause selection). The results suggest that, although inheriting an explanation from management does affect the outcome of the AP process, it does not result in fewer correct outcomes.

"The Effectiveness of Alternative Risk Assessment and Program Planning Tools in a Fraud Setting," S. K. Asare and A. M. Wright. *Contemporary Accounting Research* (Volume 21, Issue 2, 2004): 325-350.

The authors investigated the impact of alternative risk assessment (standard risk checklist versus no checklist) and program development (standard program versus no program) tools on fraud planning effectiveness. Using an SEC enforcement fraud case, the study found that auditors who used a standard risk checklist made lower risk assessments than those without a checklist. Also, auditors with a standard audit program designed a relatively less effective fraud program than those without this tool, and were less willing to seek consultation with fraud experts. In addition, fraud risk assessment was not associated with the planning of more effective fraud procedures, but was directly associated with the desire to consult with fraud specialists.

"The Impact of the Type of Accounting Standards on Preparers' Judgments," by J. Psaros and K. T. Trotman, *Abacus* (Volume 40, Issue 1, 2004): 76-93.

Based on two laboratory experiments, the authors examined financial statement preparers' consolidation judgments and how they are impacted by the precision of accounting standards (substance-over-form versus rules-based). The results show that, when participants used a substance-over-form accounting standard, they justified their consolidation judgments on case-specific information rather than on different interpretations of the phrase 'capacity to control.' When participants used a rules-based standard, incentives were found to impact accountants' consolidation judgments, resulting in more aggressive judgments.

"The Influence of a Business-Process Focus on Category Knowledge and Internal Control Evaluation," by L. S. Kopp, and E. O'Donnell, *Accounting, Organizations and Society* (Forthcoming 2005).

The authors examine whether organizing information about internal controls around business processes instead of control objectives produces stronger category knowledge during training and improves decision performance during internal control

evaluation. Novices who were trained to evaluate internal controls using business-process-focused materials developed stronger category knowledge. After training, novices who evaluated internal controls using materials organized around a process focus identified more control issues. Findings suggest that the process focus may be a more effective framework for organizing internal control evaluation.

"The Effects of Feedback Type on Auditor Judgment Performance for Configural and Non-Configural Tasks," by P. W. Leung and K. T. Trotman, *Accounting, Organizations and Society* (Forthcoming 2005).

The authors examine the effect of four different types of feedback (outcome, task properties, cognitive, combined task properties/cognitive) on risk assessment judgments for tasks requiring or not requiring configural cue processing. Results indicate that task properties feedback and combined feedback improved performance on both tasks. Outcome feedback was more effective for the non-configural task, while cognitive feedback was more effective for the configural task. In addition, combined feedback was particularly effective in transferring knowledge across tasks.

"Testing the 'Inverted-U' Phenomenon in Moral Development on Recently Promoted Senior Managers and Partners," R. A. Bernardi and D. F. Arnold Sr., *Contemporary Accounting Research* (Volume 21, Issue 2, 2004): 353-366.

The authors examine the change in the average level of moral development over a 7.5-year period of promotion, attrition, and survival in five Big 6 firms. They found that the firms retained auditors with higher average levels of moral development (measured using the Defining Issues Test), while those with lower levels left the firms. The average level of moral development for new partners was at least as high as the group from which they came. This suggests that the concern about Big 6 firms retaining a higher proportion of auditors with lower moral development may be an artifact of prior studies' research designs.

"Audit Firm Industry Specialization and Client Disclosure Quality," by K. A. Dunn and B. W. Mayhew, *Review of Accounting Studies* (Volume 9, No. 1, March 2003): 35-58.

The authors study whether or not auditor selection is a part of firms' overall disclosure strategy. The authors find evidence that there is a positive association between industry-specialist audit firms and analysts' rankings of disclosure quality in unregulated industries, but not in regulated industries. These results suggest that

firms that hire auditors that are industry-specialists provide enhanced financial disclosures and that the choice of an industry-specialist auditor signals a client's intention to provide enhanced disclosures. However, industry-specialist audit firms are less important in regulated industries.

"Audit Firm Portfolio Management Decisions," by K. M. Johnstone and J. C. Bedard, *Journal of Accounting Research* (Volume 42, Issue 4, 2004): 659-690.

The authors study how auditors manage their client portfolio by utilizing client acceptance and continuance decisions of a single large audit firm. The evidence shows that the firm is removing the riskier clients from its portfolio and that the firm's newly accepted clients are less risky than its continuing clients. The greatest reduction in portfolio risk arises from the discontinued clients. The results also suggest that audit risk factors are more important in the audit firm's portfolio management decisions than are financial risk factors, while audit pricing is not a factor in these decisions when the authors control for risk and other client characteristics.

"Does Auditor Quality and Tenure Matter to Investors? Evidence from the Bond Market," by S. A. Mansi, W. F. Maxwell and D. P. Miller, *Journal of Accounting Research* (Volume 42, Issue 4, 2004): 755-793.

This paper considers the relation between auditor quality and tenure and the cost of debt financing. The results show that auditor quality and tenure are negatively and significantly related to the cost of debt financing and that the relation between auditor characteristics and the cost of debt is most pronounced in firms with debt that is non-investment grade. The results suggest that the insurance and information role of audits are economically significant to the cost of debt and that auditor quality and tenure matter to capital market participants.

"Auditor Independence, Non-Audit Services, and Restatements: Was the U.S. Government Right?," by W. R. Kinney , Z. V. Palmrose, and S. Scholz, *Journal of Accounting Research* (Volume 42, Issue 3, 2004): 561-588.

This study addresses the presumed negative effect that non-audit service fees have on the quality of financial reporting. Assuming that restatements of previously issued financial statements are attributable to low-quality financial reporting, this paper examines the fees paid by restating registrants and for similar non-restating registrants. The results show that fees for financial information systems design and implementation or internal audit services are not associated with restatements, but

that there is a positive association between fees from unspecified non-audit services and restatements. Moreover, the results show a negative association between tax service fees and restatements, consistent with net benefits from acquiring tax services from a registrant's audit firm. The significance of these results is primarily caused by larger registrants.

"Fees Paid to Audit Firms, Accrual Choices, and Corporate Governance," by D. F. Larcker and S. A. Richardson, *Journal of Accounting Research* (Volume 42, Issue 3, 2004): 625-658.

This paper examines the relation between the fees paid to auditors for audit and non-audit services, and the choice of accrual measures for a large sample of firms. Overall, the results show that, as the ratio of non-audit to audit fees increases, the total absolute value of accruals increases. However, other tests suggest that this only occurs for about 8.5 percent of the sample. The results also show that there is a negative relation between the *level* of fees (both audit and non-audit) paid to auditors and accruals, with further tests suggesting that this negative relation is strongest for client firms with weak governance.

"Nonaudit Services and Earnings Management: UK Evidence," M. J. Ferguson, G. S. Seow, and D. Young, *Contemporary Accounting Research* (Volume 21, No. 4, 2004): 813-841.

This study considers the relation between non-audit services purchase and earnings management, using a sample of UK firms and 1996–1998 data. The paper uses three proxies for earnings management: (1) the likelihood of regulatory investigation or criticism, (2) the likelihood of restatements arising from the adoption of FRS No. 12 and (3) the mean absolute value of client discretionary working capital accruals over the sample period. The paper also uses three measures of non-audit service purchase: (1) the ratio of non-audit to total audit fees, (2) the natural log of non-audit fees and (3) the decile rank of a particular client's non-audit fees relative to the all clients of a particular audit firm. With one exception, the results show that all three measures of earnings management are positively associated with the three non-audit fee measures.

Governance and Auditing: Corporate Governance in the New World Economy, Edited by Peter Moizer, (2005). Edward Elgar Publishing, Inc.: Northampton, MA.

This book includes reprints numerous academic articles related to various aspects of corporate governance. The articles are sorted into four parts, including 1) the role of

auditing in the governance process, 2) audit quality and auditor reputation, 3) governance and the audit committee, and 4) the relationship between internal and external auditors. The articles are selected from top tier accounting journals and are written by many of the top researchers in auditing and governance. The book begins with an introduction by Peter Moizer, in which he discusses various topics, including, the role of auditors, choices faced by auditors, and audit quality; and summarizes the readings included later in the text. Mr. Moizer describes the book as one that "collects together some of the important research papers relating to the role that auditing plays in the governance of corporations."

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"Have You Seen These Instructional Resources?"

By the 2004–2005 Education Committee of the Auditing Section of the
AAA

(Eric N. Johnson, Chair; Michael D. Akers; Christine Earley; D. Jordan
Lowe;

Susan Parker; Jay Thibodeau; and C. William Thomas)

With the introduction of the first PCAOB auditing standards in mind, the Section's Education Committee has compiled [a set of instructional resources](#) on auditing standards, including those promulgated by the PCAOB and AICPA. In addition, this list includes materials related to ISACA's COBIT (Control Objectives for Information and related Technology) standards for IS auditing. We hope that these resources might increase the discussion among the Section's members about instructional materials and resources that other faculty find particularly effective in their own assurance and auditing classes.

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Why We Should Consider Belief Functions in Auditing Research and Practice

Rajendra P. Srivastava, University of Kansas, and
Theodore J. Mock, University of Southern California and Maastricht University¹

Recent events in the auditing profession (sometimes called the ‘accounting’ profession) have clearly called for a reconsideration of the paradigms currently in vogue in both auditing research and practice. Although early audit research and standard setting explored more rigorous frameworks for risk assessment (e.g., a specific algebraic definition of audit risk and rigorous guidance concerning statistical sampling), more recently audit practice has moved away from these approaches in favor of judgment sampling and relegating precise formulations of audit risk to providing ‘general guidance’ for audit planning. As academics, we have the responsibility to help improve audit practice and research by exploring alternative, more rigorous frameworks for risk assessment, evidential reasoning and audit planning. In this note we briefly discuss one framework that offers advantages in this quest - The Dempster-Shafer theory of belief functions.²

Although there is no generally accepted set of criteria that would allow researchers or practitioners to select one framework over another (Smets, 1999)³, there are a number of features of belief functions that suggest that should be used more extensively in auditing. These are briefly discussed below starting with perhaps the most compelling one, how risk and uncertainty should be treated.

Risk Assessment

¹ Our thanks to J. Bedard, G. Monroe, P. Shenoy, C. Shenoy, J. Turner, and A. Wright for their suggestions on this note.

² For an introduction to belief functions see Srivastava (1993).

³ This argument also applies to paradigms such as Bayesian inference that are currently in vogue. Although Bayesian inference may be a useful framework for some audit situations, it clearly is not a superior framework for all issues. See our references for detailed discussions of some reasons why.

The demise of Arthur Andersen, the frequent occurrence of restatements, and the many alleged audit failures imply that our current ways of conceptualizing and operationalizing risk need reconsideration. Belief functions offer a number of potential advantages in assessing risks in auditing. Concisely stated, belief functions provide a *rigorous* definition of risk,⁴ which is appropriately *conservative*, can be *operationalized* in any risk assessment setting, and can be expected to be applied consistently by auditors over a wide variety of risk assessment situations. This approach may be applied in typical audit situations, such as the evaluation of fraud risk, where there is limited information and significant uncertainty and ambiguity.

In general, uncertainty is present in situations in which one is not certain about the outcome of an event. For example, in a financial audit, suppose the auditor has no evidence whether management fraud is present or not present in the financial statements. In the absence of any relevant evidence, the auditor is completely ignorant about whether fraud is present or not. Such a situation is represented by assigning equal probability to both the outcomes under a probability framework: $P(\text{fraud}) = 0.5$, $P(\text{no fraud}) = 0.5$. These probability numbers, in general, represent uncertainty about the outcome of the event. Under belief functions, the same situation, where there is no evidence, is represented by assigning zero beliefs to both the outcomes: $\text{Bel}(\text{fraud}) = 0$, and $\text{Bel}(\text{no fraud}) = 0$. However, under belief functions, plausibility⁵ that fraud is present or not present is one, i.e., $\text{Pl}(\text{fraud}) = 1$, $\text{Pl}(\text{no fraud}) = 1$. The ambiguity in an outcome is defined as the difference between the plausibility and belief in an outcome (see, e.g., Srivastava 1997). Thus, in the above example, the ambiguity that fraud is present is 1. We cannot represent ambiguity in such a simple way using probabilities. As defined by Srivastava and Shafer (1992),

⁴ A rigorous, mathematical definition is presented in many of the references to this paper. Space limitations prohibit the presentation of the full mathematical formulations here.

⁵ Plausibility in a state 'a', by definition, is equal to one minus the belief in "not a", i.e., $\text{Pl}(a) = 1 - \text{Bel}(\text{not } a)$. See Srivastava and Shafer (1992) for more discussions.

plausibility that there is material misstatement represents audit risk and plausibility that fraud is present represents the risk of fraud. Thus, in the present example, the risk of fraud is one under belief functions. However, for the same situation under probability theory, the risk of fraud is only 0.5, as measured by the probability of fraud being present.

Consider another situation in which the auditor obtains a piece of evidence and, based on this evidence, thinks that there is a low level of support, say 0.3 on a scale of 0-1, that fraud is present. If we represent this judgment using the probability framework then we will have probability of fraud to be 0.3 and probability of no fraud to be 0.7, i.e., $P(\text{fraud}) = 0.3$, $P(\text{no fraud}) = 0.7$, even though there is no evidence that supports 'no fraud'. However, when we use belief functions then, based on the evidence, we have 0.3 level of belief that fraud is present, $\text{Bel}(\text{fraud}) = 0.3$, but no belief that fraud is not present, $\text{Bel}(\text{no fraud}) = 0$, and 0.7 level of support is undecided? it may pertain to 'fraud' or 'no fraud' depending on the additional evidence. Thus, based on this evidence, the plausibility that fraud is present is 1 and plausibility that fraud is not present is 0.7. For this example, the fraud risk defined by probability framework is 0.3 because of the probability of fraud being 0.3. However, under belief functions, the fraud risk, as defined by plausibility of fraud, is still 1 (0.3 level of belief from the direct evidence, 0.7 level of belief coming from the ambiguity). Thus, the belief function measure of risk is a more conservative estimate of risk than that obtained using the probability framework, as elaborated further below.

The belief function notion of risk is defined to be the *plausibility* that the event of interest (e.g. material fraud has occurred or the financial statements are materially misstated) has occurred. From this perspective, both *direct evidence* that the event has occurred (e.g. evidence of fictitious sales) and *ambiguity* as to whether the event has occurred or not is assigned to risk.

This definition is operational as long as the auditor can provide an assessment of the strength of audit evidence in terms of the degree to which it confirms or disconfirms any assertion of interest.⁶ More importantly, the belief function notion of risk provides a conservative assessment of risk, which can be argued to be the best approach for the profession. This assessment is conservative in the sense that the highest assessment of risk is used, given both the evidence and ambiguity that exists. Given the litigious environment facing the profession and the high penalties the market extracts in cases of failure, underestimation of such risks is clearly not in the best interest of the profession. In such cases, it is the plausibility of risks such as fraud that need to be reduced to miniscule levels. The use of such a conservative approach also is appropriate when assessing audit risk (Srivastava and Shafer, 1992) and the risk of a material weakness in the internal controls over financial reporting.

Further, in support of belief functions, Srivastava and Shafer (1992) argue that the interpretations of audit risk and inherent risk under the probability framework do not make sense. For example, during planning, if IR (inherent risk) = 1, how should this be interpreted? Does it mean that the auditor is planning the audit certain that there is material misstatement in the financial statements? However, this conclusion is what a probability-based interpretation implies. Under a belief-function interpretation, although setting IR = 1 means there is a 100% plausibility (risk) of a material misstatement, there is also a 100% plausibility of no material misstatement. Which state is correct requires the collection and interpretation of competent audit evidence.

In addition, suppose the auditor has performed analytical procedures related to accounts receivable and the auditor thinks that the resulting evidence, which is all consistent with auditor expectations, provides support for the account being fairly presented at a low level; say 0.2 on a

⁶ As is the case with any approach to modeling audit risk, the assessment of strength of evidence is difficult and further research is needed as to training, calibration and other aspects.

scale of zero to one. If we interpret this judgment using probability theory then, by definition, we have 0.8 level of support for the account balance being materially misstated. But, as assumed, the auditor actually has no information about the account being materially misstated. Belief functions map this situation correctly: belief that the account is fairly stated is 0.2; belief that the account is materially misstated is zero; and a 0.8 belief level is unassigned to represent the ambiguity at that stage of the audit. Subsequent testing would reduce the belief assigned to ambiguity, and correspondingly increase the belief that the account is fairly stated or misstated. Importantly, there is explicit recognition in belief functions of the extent to which currently available information does and does *not* help the auditor determine whether a misstatement exists.

Given that the traditional framework for modeling risk and uncertainty in auditing is based on probability theory and Bayesian inference, several other articles have discussed additional issues one faces in applying the probability framework to audit research or practice. We encourage the interested reader to review these articles when considering belief functions or other alternatives⁷.

The Proof of the Pudding is in the Eating.

While Srivastava and his co-researchers have begun to explore the applicability of belief functions to audit and assurance services (e.g., Shafer and Srivastava 1990, Srivastava and Shafer 1992, Srivastava 1993, Srivastava and Liu 2003, Srivastava and Mock 1999-2000, and 2002), we should also look to other disciplines to assess its potential. Belief functions are being used in a variety of real world settings, mostly because of its flexibility in modeling uncertainties and assessing risk. Some examples of applications to problems beyond auditing include:

⁷ In particular see Srivastava and Shafer (1990), Srivastava (1993), Smets (1999).

- Remote sensing in agriculture (Cohen and Shoshany, 2004) and in the ocean (Moon, 1990).
- Assessing risk in water treatment: Démotier, Schön and Denoeux (2004).
- Forecasting demand for mobile satellites: McBurney and Parsons (2002).
- Financial Portfolio Management: Shenoy and Shenoy (2002).
- Data mining: Wilkins and Lavington (2002).
- Image processing in radiology: Chen, Lin, and Chen (1992).

Why Consider Belief Functions in Auditing Research and Practice?

In conclusion, audit researchers and practitioners should consider the Dempster-Shafer theory of Belief Functions as it provides a rigorous, operational and appropriately conservative approach to risk assessment and evidential reasoning that can be expected to be applied consistently over a variety of audit situations. Clearly, the belief function approach has its own challenges (e.g. see Gillett 1996) and further research is needed concerning issues such as the calibration characteristics of beliefs which measure strength of evidence and the training that would be needed to better utilize the belief function perspective in practice. Research has begun and has provided evidence that belief functions may best capture auditor judgment. For example, Monroe and Ng (2002) have investigated the degree of consistency between auditors' intuitive assessments of audit risk and audit risk values generated by various models, including the belief-function and Bayesian models. Their research demonstrates that inconsistencies occur with the use of all models except the belief-function model. Also, Harrison et al. (2002) have shown that 80 percent of the auditors' judgment about the strength of evidence pertaining to an assertion can be modeled under belief functions only and not under the probability framework.

Nonetheless, additional research is needed to see if these results can be replicated and extended to other audit tasks. The significant challenges currently facing the auditing profession and the heightened awareness of the value of belief functions by researchers in other disciplines

suggest that it is an opportune time for audit researchers to explore the value and limitations of this very promising approach.

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*American Accounting Association ♦ Auditing Section
Auditing Standards Committee*

February 10, 2005

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Via email to comments@pcaobus.org

RE: Invitation to Comment on PCAOB Rulemaking Docket Matter No. 017

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association welcomes the opportunity to comment on *Proposed Ethics and Independence Rules Concerning Independence, Tax Services, and Contingent Fees*. We offer the comments below to enhance the clarity of the proposed standard and to address a few more substantive questions. We find the proposed rules and discussion to be very well constructed and firmly grounded in existing tax rules and SEC requirements.

The views expressed in this letter are those of the Auditing Standards Committee members and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

1. Rule 3522 and related discussion of general tax planning and advice.

We acknowledge the discussion and support for the proposed rule regarding allowable tax planning subject to specific approval of the audit committee, yet offer several observations suggesting that auditors' provision of general tax planning services should be prohibited.

First, the goal of tax planning services is to facilitate management decision-making to reduce taxes. As a result, the audit firm is acting in a consulting role and working with management toward a common decision-making objective – structuring business transactions in a manner that is advantageous from a tax perspective. In our opinion, the very nature of this service results in the audit firm and the client having a shared interest of reducing future taxes. This role for the audit firm appears to us to be quite different than an attest role or a compliance role.

Second, from a public perception standpoint, we question whether investors view the auditor as truly independent when the auditor provides significant tax planning services to the client. In such a case, the perception may be that the auditor and client are “too close” due to their working together to reduce taxes.

Third, we wonder exactly where the line is drawn between tax planning services that are appropriate versus those that are inappropriate. For example, how would one assess whether management truly “makes all decisions relating to, and takes responsibility for, . . . the tax work . . .”? A trusted tax advisor involved in tax planning work could reasonably be expected to have a significant impact on the decisions of management. As a result, it is unclear how close the audit firm can get to driving management’s decisions without impairing its own independence. As a public policy matter, we wonder about the impact on the market if some audit firms cross this “fuzzy” line and must resign from audits due to independence violations.

We believe the proposed rule provides an improvement from the current environment and should be approved, with the recommendation that the Board remain sensitive to the independence risks posed by allowing tax planning for audit clients. In the best of circumstances the professional judgment of the audit committee can be relied upon to monitor the first and third issues raised above. Unfortunately, the public perception of independence is not within the control of audit committees or management. In the final analysis, there are many available providers of tax planning services, and in today’s environment, the risks of allowing auditors to provide tax planning services may outweigh the advantages.

2. Rule 3522 and clarification of opining on tax treatment.

The Board should clearly define when opining on a tax transaction is separate from the audit process. Clearly, an auditor has to opine on transactions as part of the audit process. If a client asks whether their accounting for a tax transaction is appropriate, is that opining? If the client asks about proposed accounting for a proposed tax transaction (whether or not the auditor subsequently determines the transaction is restricted under Rule 3522) is the auditor’s independence impaired by virtue of having provided that opinion? This issue was raised during the Board’s December 14, 2004 meeting to approve release of these proposed changes, and we agree that clarification would be beneficial.

3. Rule 3523 and related discussion of provision of tax services for senior officers.

We believe that auditor independence is impaired if the audit firm provides personal tax services to any person in a financial reporting oversight role. The restriction should not be limited to officers in financial reporting oversight roles as proposed. All employees in a financial reporting oversight role are in critical positions, and the auditor should be independent of these parties.

Finally, while the role of audit committees and the approval required for the provision of tax services by the auditor is present in the proposed rules, we note the lack of discussion of audit firms' quality control procedures regarding tax services and the related threats to independence. We encourage the Board to consider quality control procedures in the future to provide guidance on the appropriate level of review and safeguards within audit firms related to threats to independence.

We hope that our suggestions are helpful and will assist in finalizing the auditing standard. Please feel free to contact our committee Chair for elaboration on or clarification of any comment.

Respectfully Submitted,

Auditing Standards Committee
Auditing Section, American Accounting Association

Committee Members:

Roger D. Martin, University of Virginia (Chair)
434-982-2182, rdm3h@virginia.edu
Robert Allen, University of Utah (Vice Chair)
Dana R. Hermanson, Kennesaw State University (Past Chair)
Thomas M. Kozloski, Wilfrid Laurier University
Evelyn Patterson, University at Buffalo
Robert J. Ramsay, University of Kentucky
Stuart Turley, University of Manchester



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AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Nominations Nominees for Election as Section Officers

The members of the Auditing Section will elect two officers in Fall 2005, the **Vice President– Academic (President-Elect)** and **Secretary**. Those elected will begin serving their terms in August 2006. Please submit names of individuals you would like to nominate for these positions no later than July 1, 2005. The Nominations Committee will then select the slate for election from these nominations. In addition, the Bylaws require the Nominations Committee to automatically place on the ballot any person whose nomination is accompanied by a signed petition of no fewer than one hundred (100) members in good standing of the Section and a signed statement by the nominee of willingness to serve if elected. This petition should also be received by **July 1, 2005**.

Please submit nominations and/or petitions to Linda McDaniel, Chairperson, Nominations Committee, by email no later than **July 1, 2005**:

Professor Linda McDaniel
University of Kentucky
Gatton College of Business and Economics
Von Allmen School of Accountancy
Lexington, KY 40506-0034
Phone: (859) 257-2018
Fax: (859) 257-3654
Email: tarcat@uky.edu

Call for Nominations Notable Contribution to the Auditing Literature Award

The Auditing Section seeks submissions for the Notable Contribution to the Auditing Literature Award. The award will recognize a published work of exceptional merit that has made, or has the potential to make, a direct contribution to auditing or assurance research, education, and practice. To be eligible for submission, a work must have been published during the ten-year period ended December 31, 2004, and at least one of the authors of the published article, chapter, book, or monograph must be a current member of the Auditing Section. Selection of the award winner will be made by the Auditing Section's Notable Contribution to the Auditing Literature Award Committee. The award will be presented at the 2006 Midyear Conference of the Auditing Section.

A work may be submitted either by the author or another individual with an interest in auditing research, education, or practice. Submissions must include (1) a nomination letter stating why the work is deserving of special recognition and (2) the submitted work.

Submissions should be sent via email by **July 1, 2005** to:

Mark Beasley
North Carolina State University
Box 8113
College of Management
Raleigh, NC 27695-8113
Phone: (919) 515-6064
Fax: (919) 515-4446
Email: mark_beasley@ncsu.edu

Call for Nominations Outstanding Auditing Dissertation Award

The Auditing Section seeks nominations for its annual Outstanding Auditing Dissertation Award. The author of the dissertation judged to make the most outstanding contribution to auditing knowledge among those dissertations nominated for consideration, in addition to the recipient's dissertation chair, will receive the award. The assessment of what constitutes an outstanding contribution will be based upon, but not limited to, the following criteria:

- The timeliness and importance of the problem(s) addressed.
- The creativity of the research.
- The development of an appropriate theoretical framework.
- The appropriateness of the research method and analysis.
- The potential for publication in a scholarly journal.
- The potential for the results to have an impact on the practice of auditing.

Selection of the award winner will be made by the Section's Outstanding Dissertation in Auditing Committee. A dissertation can be nominated either by the author or one or more members of the dissertation committee. Nominations will be considered complete when the following materials have been submitted:

- A letter from the dissertation chairperson stating that the dissertation has been completed and accepted by the degree-granting institution between January 1, 2003 and December 31, 2004 (dissertations can be nominated more than once).
- A nomination letter stating why the dissertation is deserving of special recognition.
- An electronic copy of a paper from the dissertation that meets the criteria for papers submitted to *Auditing: A Journal of Practice & Theory* (refer to the latest issue for requirements related to length and other matters, e.g., submission of experimental instruments).
- An electronic copy of the entire dissertation.

Please submit all materials via email by **July 1, 2005** to:

Mark Beasley
North Carolina State University
Box 8113
College of Management
Raleigh, NC 27695-8113
Phone: (919) 515-6064
Fax: (919) 515-4446
Email: mark_beasley@ncsu.edu

Call for Nominations

Innovation in Auditing and Assurance Education Award

The Innovation in Auditing and Assurance Education Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2006. The purpose of this award is to encourage innovation and improvement in auditing and assurance education. The award will recognize a significant activity, concept, or materials. The criteria used to judge the submissions include, but are not necessarily limited to: (1) innovation, (2) educational benefits, and (3) adaptability by other educational institutions or to other situations.

Nominations may include, for instance, a set of teaching materials, a creative instructional strategy, or an insightful teaching approach. The innovation should have been implemented so that evidence of its success can be evaluated. Award winners must be willing to share instructional materials with other members of the Section. Individual faculty members or groups of faculty teaching or preparing materials to be used for auditing and/or assurance education are eligible to apply. Persons may also nominate another faculty member or group of faculty. At least one nominee must be a member of the Auditing Section.

Nominations should be sent by **July 1, 2005** to:

Professor Linda McDaniel
University of Kentucky
Gatton College of Business and Economics
Von Allmen School of Accountancy
Lexington, KY 40506-0034
Phone: (859) 257-2018
Fax: (859) 257-3654
Email: tarcat@uky.edu

Call for Nominations

Distinguished Service Award in Auditing

The Distinguished Service in Auditing Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2006. This award recognizes outstanding and sustained service to the profession or the Auditing Section. The distinguished careers of past recipients of the award (e.g., Tim Bell, Andy Bailey, Zoe-Vonna

Palmrose, Lyn Graham, Robert Mautz, Robert Elliott, William Kinney, Dave Landsittel, and Dan Guy) represent the type of contribution to the profession that exemplifies this recognition.

Nominations should be sent via email by **July 1, 2005** to:

Scott Showalter
KPMG LLP
280 Park Avenue
New York, NY 10017
Phone: (212) 909-5905
Email: dsshowalter@kpmg.com

Call for Nominations Outstanding Auditing Educator Award

The Outstanding Auditing Educator Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2006. This award is given annually and recognizes outstanding contributions to the field of auditing education. Prior recipients of this award include Steve Albrecht, Dan Simunic, Ted Mock, Andy Bailey, Ira Solomon, William Kinney, William Felix, Nick Dopuch, and Barry Cushing.

Nominations should be sent via email by **July 1, 2005** to:

Professor Linda McDaniel
University of Kentucky
Gatton College of Business and Economics
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Phone: (859) 257-2018
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12th Annual Auditing Section Midyear Conference

Meeting Announcement and Call for Papers

The 12th Annual Auditing Section Midyear Conference will be held in **Los Angeles, California on January 12–14, 2006**. This meeting will be held jointly with the American Accounting Association's International Section and will consist of keynote, plenary, and concurrent sessions dealing with a wide variety of contemporary topics related to audit, attestation and assurance practices, education, and research. You are encouraged to contribute to the program through submissions of auditing/attestation/assurance research and education papers, teaching cases, and special session proposals. This call for papers applies only to Auditing Section submissions—a separate Call for Papers will be issued by the International Section.

Submission Guidelines and Deadlines

Please e-mail your conference submissions to the meeting Co-Chairs, Mark DeFond and Todd DeZoort, at AMC2006@cba.ua.edu. To preserve anonymity, e-mail the cover page and the remainder of the manuscript as separate files. Research submissions involving field surveys and experiments also should include the research instrument with the author identities removed.

The submissions deadline is **September 1, 2005**. Submissions will not be eligible for consideration if they will have been: 1) published or accepted for publication by September 1, 2005, 2) presented at the 2005 AAA Annual Meeting, or 3) presented at more than one AAA regional meeting. Papers presented at the Research Forum of the AAA Annual Meeting are eligible for consideration. Papers accepted for presentation at the 2006 Auditing Section Midyear Conference also may be submitted for presentation at the 2006 AAA Annual Meeting. Early submission is

highly encouraged and there is no submission fee required.

Volunteer to be a Reviewer, Session Chair, or Discussant

The Auditing Section needs your help in planning and conducting the 2006 Midyear Conference. If you would like to volunteer your assistance, please e-mail [the completed form](#) to conference Co-Chairs, Mark DeFond and Todd DeZoort, at AMC2006@cba.ua.edu.

Please address any questions to Mark DeFond and Todd DeZoort at AMC2006@cba.ua.edu.

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Call for Papers

CAR Conference for 2005

**Building a Better Understanding of Accounting:
Celebrating Diversity in Accounting Research
November 5th and 6th, 2005**

The Canadian Academic Accounting Association announces the 20th *CAR* Conference. It will take place in Niagara-on-the-Lake, Ontario on November 5th and 6th, 2005. In addition, there will be a Doctoral Consortium on November 4th.

The 20th Anniversary *CAR* Conference will look back at the founding of *CAR* and the diverse streams of research that have ebbed and flowed through the twenty conferences. Hence, the *CAR* editorial team invites research papers in any area of accounting research, broadly defined (financial, managerial, assurance, and tax) and employing any method (analytical, archival, case, empirical, and survey). We hope to have a set of accounting papers that encompass the major topic areas and methods, which demonstrate the synergy that can be achieved by understanding what other perspectives have to offer, either methodologically or substantively.

Submissions to the conference also constitute submissions to *CAR*. Therefore, submissions should follow *CAR*'s editorial guidelines. These require submission of one hard copy and one electronic copy (Word or PDF), **with a cheque payable to the CAAA** in the amount of \$100 for CAAA members and *CAR* subscribers, or \$165 for others (dollar amounts are in Canadian funds in Canada and in US funds elsewhere). **Both hard and electronic copies must arrive at the *CAR* office no later than April 22, 2005.***

Papers not accepted for the conference (and submissions that come in after the deadline) will be treated the same as non-conference submissions. Papers accepted

for the conference are generally published in *CAR*; however, the ultimate disposition of each manuscript depends on the normal review procedures employed by the journal.

Authors will be notified of the decision regarding the conference agenda by August 15, 2005 and of the outcome of the editorial process for publication in *CAR* in the normal course. Submissions should be directed to:

Professor Gordon Richardson, Editor
Contemporary Accounting Research
Joseph Rotman School of Management
University of Toronto
105 St. George St.
Toronto, ON M5S 3E6 Canada
Phone: 416-946-8601
Fax: 416-971-3048
Email: car@caaa.ca

* Note that these submission guidelines are subject to change, as *CAR* plans to introduce a new web-based submission system in 2005. We will announce the change and provide updated guidelines on the CAAA website — please check www.caaa.ca before submitting.

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Call For Papers

**2005 ABO Research Conference
Atlanta Georgia
October 21-22, 2005**

The 2005 ABO conference will be held October 21–22, 2005 in the Buckhead area of Atlanta, Georgia. The deadline for submission is Thursday, **June 30, 2005**. Selection of conference papers will be announced by August 20, 2005. Submitted papers should not have been accepted for publication at the time of the submission. Papers should follow the style guidelines for *Behavioral Research in Accounting*.

BRIA simultaneous submission: Authors may simultaneously submit their paper for consideration for publication in *Behavioral Research in Accounting* (with no additional *BRIA* submission fee), if desired. The *BRIA* decision process is completely independent of the conference decision process. No separate conference issue of *BRIA* will be published. The paper will be considered for simultaneous submission only if the author specifically requests it. Please include a note with your submission to indicate simultaneous submission.

Emerging scholars submission: This year we are pleased to include an Emerging Scholars session at the conference. This session will showcase the work of new scholars while providing them with detailed constructive feedback on their papers through the assignment of a more senior discussant. Faculty who have graduated within the past three years and doctoral students are encouraged to submit their work to this session. Please include a note with your submission to indicate "emerging scholars" submission.

Submission procedures: All submissions should be made electronically. Email submissions to *both* Lynn Hannan (rhannan@gsu.edu) and Anne Magro

(amagro@ou.edu). The manuscript should be submitted in .pdf format with all author identification removed from the document; instruments should also be submitted for field surveys or experiments. Include author(s) and institution affiliation(s) in the email.

The submission fee is \$75.00 (\$50.00 for doctoral students). Please mail a check payable to the American Accounting Association to:

Professor Lynn Hannan
School of Accountancy
Georgia State University
PO Box 4050
Atlanta, GA 30302-4050

When registering for the conference, submitting authors may deduct \$50.00 from the normal registration fee (limited to one deduction per paper and one deduction per person).

Watch the AAA website for further details on the conference, including registration information.

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Call for Papers

International Symposium on Audit Research (ISAR) Singapore 2005 June 30 and July 1, 2005

The 11th Annual International Symposium on Audit Research (ISAR) will be hosted by the Centre for Accounting and Auditing Research (CAAR) of the Nanyang Business School, Nanyang Technological University, and will be held on June 30 and July 1, 2005 in Singapore.

ISAR is jointly organized by the University of Southern California, Universiteit Maastricht, Nanyang Technological University, and the University of New South Wales.

The program will be out by April 2005. Please check out the program at <http://www.isarhq.org>

If you have questions about registration for the Symposium, please write or email or fax to:

Ms Adeline Tang
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AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Announcement and Call for Papers

Accounting Ethics Education and Research at a Crossroads 10th Ethics Research Symposium

**Noon Saturday, August 6, 2005 Through Noon Sunday, August 7, 2005
Paper Submission Deadline Is April 1, 2005**

The Professionalism and Ethics Committee of the American Accounting Association invites faculty and doctoral students to attend the 10th Ethics Research Symposium that will take place just prior to the 2005 American Accounting Association Annual Meeting in San Francisco. The Symposium will focus on all aspects of accounting ethics research, including research on accounting ethics education.

Accounting ethics education is at a crossroads. It has been 15 years since this committee offered its first seminar on teaching ethics in accounting programs. How much ethics is covered in the accounting curriculum? What is the future of teaching ethics in accounting programs? Can accounting ethics be taught/learned? If yes, what are the best approaches, resources and strategies?

Accounting ethics research is also at a crossroads. How far has accounting ethics research come in becoming a mainstream research area? What exactly is accounting ethics research (e.g., what are its boundaries; what are its paradigms)? What is the past, present and future of accounting ethics research?

The 10th AAA Ethics Research Symposium will consider papers on all aspects of accounting ethics research, including research on accounting ethics education. Possible topics for research papers include, but are not limited to the following:

Academic accounting ethics; history issues relating to accounting ethics; professionalization of the accounting profession; social control and accounting; accounting ethics literature reviews; accounting ethics education; empirical studies relating to accounting ethics; the application of philosophy and/or theology to accounting ethics; the application of sociology, psychology, and/or cultural anthropology to accounting ethics and/or professionalism; conceptual papers analyzing what is necessary to advance accounting ethics education and/or accounting ethics research to greater prominence.

The numbers of tracks and the final format of the Symposium will be determined later. A goal of the 10th Ethics Research Symposium is to be a launching pad for accounting ethics research and accounting ethics education for new prominence in the remainder of the first decade of the 21st century and beyond.

The Symposium will take place at the Hilton San Francisco as a Continuing Professional Education session, right before the 2005 American Accounting Association Annual Meeting. The registration fee, the cost of which will be announced in the future, will be waived for doctoral students wishing to attend.

Papers for consideration for presentation at the Ethics Research Symposium should be emailed in an attachment (please eliminate from the paper you attach any way of identifying yourself). We hope to have awards for (a) the best paper accepted for the Symposium and (b) the best paper accepted for the Symposium that is either single authored by a doctoral student or coauthored by two or more doctoral students. Please identify all authors, their positions, and affiliations in the email but not on the paper. A \$20 submission fee, which is not refundable and is in addition to the registration fee, made payable to the **American Accounting Association**, should accompany each paper submitted, including those by doctoral students. Papers should be emailed and checks should be mailed no later than **April 1, 2005 to:**

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The following five journals are associated with the 10th AAA Ethics Research Symposium:

Accounting and the Public Interest
Global Perspectives on Accounting Education
Journal of Accounting and Public Policy
Research on Professional Responsibility and Ethics in Accounting
The CPA Journal

Anyone submitting a paper to the Symposium has the option to choose either one or none of these five journals to consider their paper for publication consideration after the Symposium. Authors who choose to designate a journal should contact that journal's editor to determine submission policies, including the timing of formal submission of the paper. The journals associated with the Symposium that do charge a submission fee have agreed to waive that fee if the paper is formally submitted to the journal by October 15, 2005. The detailed procedures on (1) how the Symposium review process will work and (2) how and when Symposium reviews will be sent to designated journals will be sent to authors after they submit a paper to the Symposium.

Please contact Steve Loeb if more information is needed.

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THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Papers

Eleventh World Congress of Accounting Historians Nantes (France) 19 – 22 July 2006

First Announcement

Six years after the Madrid Congress in 2000, the WCAH will return to Europe, after stops in Melbourne in 2002 and St-Louis in 2004. In fact in July 2006, the Eleventh World Congress of Accounting Historians will take place in Nantes, and France will welcome this gathering for the first time.

Ideally situated, Nantes is only two hours from Paris by TGV (the high speed train with 20 round trips daily) and approximately two hours by plane from the majority of European Capitals. Gateway to Brittany and its ports, it is equally very close to a number of major tourist sites, such as Mont Saint-Michel, le Puy du Fou, the Futuroscope, and the "Chateaux of the Loire".

Settled over two millennia ago on the banks of the Loire, fifty kilometres from the Atlantic Ocean, Nantes was, during the middle ages, the capital of the Duchy of Bretagne. In the eighteenth century, the city became the great merchant port of the French crown, opening commercial and maritime routes of the Americas and Africa. The leading industrial shipyards of the western half of France from the nineteenth century, noted for its naval engineering and its canning industry, Nantes and the Loire estuary have developed into a leading metropolis for the service and high technology sectors. Economic capital of western France and the major French city in terms of its rate of demographic growth, Nantes draws interest not only for its economic achievements but also for its quality of life and its environment.

The Congress will take place on the campus of the University of Nantes, a few steps from the historic centre of the city and from the majority of the hotels likely to lodge

Congress attendees. In 1995, the Journées d'histoire de la Comptabilité et du Management, which takes place in France in March of each year, was organized for the first time in Nantes. The same year, the University of Nantes made a major acquisition of a collection of works dealing with accounting and its history, amassed by the Belgian Accounting Historian Ernest Stevelinck. Deceased in 2001, Ernest Stevelinck was the initiator and organiser of the first World Congress of Accounting Historians, which took place in Brussels in 1970. Holding the eleventh Congress in Nantes will therefore possess symbolic value and will be an opportunity to recognise his legacy.

Call for papers

Conference submissions can examine any aspect of the history of accounting, but the history of Nantes, the presence of the Stevelinck Collection, and the experience with the Journées d'Histoire de la Comptabilité et du Management motivates us to encourage papers dealing with the following themes:

- Accounting and Ocean Routes: maritime trade, major commercial companies, colonisation.
- 1970–2006: 36 years of accounting-history research: thematics, authors, methodologies, prospective approaches.
- Accounting writers: biographies, works, influence... privileging new research approaches and new issues.
- Accounting in relation to other management disciplines: strategy, management, human resources management, marketing, finance.
- Interdisciplinary approaches to accounting history.

Manuscripts must be submitted in English, and will be reviewed by the members of the Scientific Committee. Submissions by electronic mail are acceptable.

Submissions for proposals:

The deadline for proposed manuscripts is **January 15, 2006** and should be sent to:

Yannick Lemarchand

Congress Convenor

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Authors of accepted papers will be advised at the latest by March 15, 2006.

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