



THE AUDITOR'S REPORT

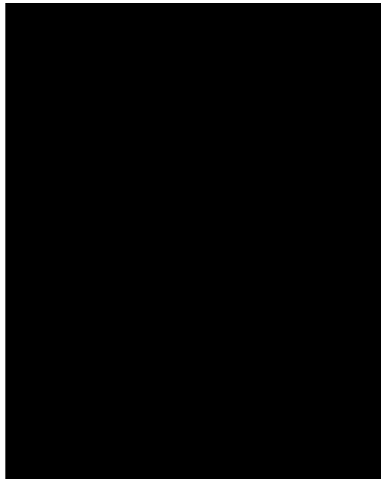
Volume 22, No.3, Summer 1999

AUDITING SECTION/AMERICAN ACCOUNTING ASSOCIATION

REPORT OF THE PRESIDENT

As I write my final President's Message, I want to tell all members that it has been a great privilege and an honor to serve the Auditing Section as your president. I have been very impressed by the dedication and work ethic exhibited by the collection of volunteers comprising our Executive Committee and all other Section committees. Given today's demanding work environment, the collective annual productivity of these volunteers is simply amazing.

On behalf of the Section's members, I would like to thank three members of our Executive Committee whose terms expire in August—Barry Cushing (Past President), Joe Carcello (Treasurer), and Jack Krogstad (Historian). It has been a real pleasure working with these fine individuals and getting to know them better. Also, I would like to thank Lyn Adair for agreeing to serve as the Section's Web Site Administrator. The AAA is working with Lyn to upgrade our web site and create a look and feel similar to the AAA site.



Timothy B. Bell

- Activity levels and topic areas for auditing publications in benchmark journals
- Activity levels and topic areas for the Mid-year, Regional and Annual Meeting programs
- Enrollments and topic areas for CPE sessions
- Membership increases and decreases and related causes
- Web site activities
- Member satisfaction levels on critical service dimensions

The performance measurement process will be tested on an experimental basis during this summer. It is anticipated that the process will be refined on an ongoing basis as we gain experience and make periodic changes to our strategy and mission.

Annual Meeting in San Diego

Joe Carcello and Bob Ramsay have put together a fine program of Section activities for the Annual Meeting in San Diego

(Continued on page 2)

Progress on the Section's Strategic Management Framework

Some elements of the Section's new strategic plan and mission statement have been posted to our web site. Executive committee members are working diligently to finish the full documentation for the strategic management framework so that it can be installed on the web site before the Annual Meeting in San Diego.

Jean Bedard and Karen Pincus have been working on the design and implementation of a performance measurement system that will enable the Executive Committee to track how well the Section is performing on the distinctive competencies required to successfully carry out our mission. The measurement process will entail collecting various key performance measures on an annual basis. Section officers and committee chairs will collect a number of key performance indicators for the academic year that have been designed to capture patterns and trends in the following areas:

- Activity levels and topic areas in submissions and publications in *AJPT*

FALL ISSUE DEADLINE

The deadline for material to be included in the Fall 1999 issue of *The Auditor's Report* is September 15, 1999. The preferred, but not mandatory, format is Word files attached to email messages. Please send all material to the Editor at the address below by that date to ensure timely publication of the issue.

Gary P. Braun

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University of Texas at El Paso
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The address of the Auditing Section's Home Page on the World Wide Web is: <http://raw.rutgers.edu/raw/aaa/audit/>

Report of the President (Continued from page 1)

(see full program starting on page 6). Highlights include a panel session on *Fraudulent Financial Reporting, 1987–1997: An Analysis of U.S. Public Companies* presented by John J. Flaherty (Chairman–Committee of Sponsoring Organizations of the Treadway Commission), Lynn Turner (Chief Accountant, SEC), Mark Beasley and Dana Hermanson (see related article in this issue); a panel session on *Continuous Auditing* presented by members of the CICA/AICPA task force and possibly others; and a panel session on *Internal Auditing: Visioning the Future* presented by Ronald Isyk (Deloitte & Touche), Anthony Ridley (Ford Motor Co.), Jack Krogstad, and Larry Rittenberg. The core program sponsored by the Section will cover a variety of topics including experimental economics; auditor reporting; audit process, pricing, planning and quality; corporate governance; and auditor choice.

I would like to encourage you to attend this year's Auditing Section luncheon at the AAA Annual Meeting in San Diego. The speaker at this year's luncheon will be Dr. Burks Oakley II, Associate Vice President for Academic Affairs at the University of Illinois at Urbana–Champaign. Dr. Oakley holds appointments as a professor in the Department of Electrical Engineering at the University of Illinois at Urbana–Champaign, in the Departments of Computer Science and Management Information Systems at the University of Illinois at Springfield, and in the School of Biomedical, Health, and Information Systems at the University of Illinois at Chicago. The topic of Dr. Oakley's speech is *Netlearning: The Impact of the Internet on Higher Education*.

Through his innovative use of technology in teaching, Professor Oakley has earned a national reputation as a practitioner and promoter of Internet-based asynchronous learning environments. During the past two years, he has given more than 75 invited talks at national conferences and on university campuses. He continues to inspire faculty and administrators as director of the new UI-Online initiative, a program designed to facilitate the development and delivery of University of Illinois courses, degrees and public service resources over the Internet.

Dr. Oakley received his B.S. degree from Northwestern University and his M.S. and Ph.D. degrees from the University of Michigan. He has received numerous awards for his teaching and for his innovative use of technology in education, including the Luckman Distinguished Undergraduate Teaching Award from UIUC in 1993, the Outstanding Professor Award from the American Society for Engineering Education (ASEE) in 1993, the Educom Medal in 1996, the Educational Activities Board Major Educational Innovation Award from the Institute of Electrical and Electronics Engineers (IEEE) in 1996 and the Meritorious Service Award from the IEEE Education Society in 1998. He is a Fellow of the IEEE and a member of the ASEE Board of Directors.

Survey on Preferred Timing of the Section's Midyear Meeting

Section members were surveyed during early February 1999 about their preferences for timing of the Section's Midyear Meeting for the year 2001 and beyond. During the past, some members have complained that the timing of the Midyear Meeting presents

a problem because it coincides with the first week of classes in January at some institutions. The survey asked members to rank a range of choices for the timing of the meeting spanning the week of January 4th through the week of February 24th. The most preferred date was ranked 1, the second-most preferred was ranked 2 and so forth. Also, members were asked whether they prefer the meeting on Thursday through Saturday-noon, or Friday through Sunday-noon.

Two hundred twelve members responded to the survey, 103 of which had attended the 1999 Midyear Meeting in Atlanta. The sum of ranks for the weeks of January 4th and January 11th were the lowest (i.e., most preferred) at 521 and 545, respectively. All other dates received sums of ranks in excess of 600. Forty-nine respondents said they would not attend the meeting if held during the week of January 4th. Only 18 respondents indicated they would not attend the meeting if held during the week of January 11th. Finally, 139 respondents indicated they preferred the Thursday through Saturday arrangement, while 99 respondents preferred Friday through Sunday (some responses were "either-or"). Based on the responses to the survey, it appears that the Midyear Meeting timing currently in effect, that is the second week in January on Thursday through Saturday-noon, is the preferred choice. At this time, the Executive Committee has no plans to change the timing of the Midyear Meeting.

Again, thank you for allowing me the opportunity to serve as your president. I wish Karen Pincus the very best when she takes over as your president in August. I will do my best to help her with Section initiatives moving forward. I look forward to seeing you in San Diego.

CALL FOR NOMINATIONS

Nominees for Election as Section Officers

At the annual Business Meeting of the Auditing Section in January 2000, members will elect two officers: Vice President—Academic (President-Elect) and Secretary. Those elected will begin serving their terms in August 2000. Please submit the names of individuals you would like to nominate for these positions no later than August 10, 1999. The Nominations Committee will then select the slate for election from these nominations. Submit nominations to Barry Cushing, Chairperson: 1999–2000 Nominations Committee, by mail, fax or email:

School of Accounting
David Eccles School of Business
University of Utah
1645 E. Campus Center Drive, Room 101
Salt Lake City, Utah 84112
Fax: (801) 581-7214
Email: actbec@business.utah.edu

Note from Professor Arnie Wright to Members Regarding *AJPT* Editor Transition

As indicated in the latest issue of *The Auditor's Report*, I will soon be assuming the duties of editor of *Auditing: A Journal of Practice & Theory (AJPT)*. I want to thank the Executive Committee of the Auditing Section for this vote of confidence and honor. I view *AJPT* as one of the most important services we provide to members of the section and will work hard to fulfill my responsibilities.

The purpose of this memo is to provide information on the transition in editors. I will officially assume the position of editor on July 1, 1999, so all submissions should be sent to me after this date. To expedite the review process, I want to take advantage of recent advances in technology. Thus, all submissions (paper and instrument) should be sent to me as an attached Word file at wrightar@bc.edu.

To preserve the anonymity of the review process, please remove any references to authors on the cover page of the paper and the instrument.

Submission fees should be mailed to me concurrently:
Professor Arnie Wright
Fulton 520B
Boston College
Chestnut Hill, MA 02167

Contact me (preferably by email) if you have any questions on

this process or for special exceptions where only a hard copy can be submitted. Correspondence and reviews will also be submitted through email.

I would also like to announce that to enhance the effectiveness and efficiency of the review process I have appointed two Associate Editors to work with me: Professor Jane Mutchler, soon to be at Georgia State University, and Professor Ken Trotman, University of New South Wales. I greatly appreciate their willingness to serve in this capacity and know you will concur that we are fortunate to have the efforts of such widely recognized, respected individuals.

I would also like to inform you that I hope to expand the breadth of the journal by encouraging research on auditing issues relating to information technology, e.g., continuous auditing and assurances on systems reliability. I believe it is essential for the auditing profession to address the challenges we face in the "information age."

As a final point, I want to thank Professor Bill Felix, the current editor, for his assistance in making this as smooth a transition as possible. We are working closely together to ensure the transition is as efficient and least disruptive as possible.

Contact me if you have any questions regarding the transition in editors. Also, your suggestions and comments are most welcome. Thank you.

New Developments in *The Auditor's Report*

In an effort to continue the tradition of providing relevant and useful information in *The Auditor's Report*, the following columns/features will appear regularly in future issues of the newsletter. I have provided brief descriptions of these items, and some examples of these have already appeared in recent issues. Anyone who has an idea that would fit into one of these categories is welcome to share that with me.

- **Innovations in Audit Education —Content**

This column will focus on topics (or specific aspects of topics) that are not typically included in an auditing course. An example of this is the article in this issue, "*Integrating Computer-Assisted Audit Tools in your Audit Course*," by Jeanine Leonard, Tim Louwers, and Alicia Rieffel.

- **Innovations in Audit Education —Instructional Methods**

This column will focus on new and innovative ways of helping students learn. An example of this type of article is "*A Course in IS Assurance: Collaborative Discovery Learning Online*," by A. Faye Borthick. That article appeared in the Fall 1998 edition of the newsletter.

- **Innovations in Assurance Practice**

This column will focus on new developments in the area of assurance services. Jerry Sullivan, VP—Practice of the section, and I will be working together in this area.

- **Innovations in Assurance Research**

Articles in this column will involve, but will not necessarily be limited to, research methods and topics.

- **Practice Implications of Auditing Research**

The article in this issue, "*The Role of Internal Audit in the Financial Statement Audit Process*," by Mario Maletta and Audrey Gramling represents the third installment in this series. The two previous articles in this series appeared in the Summer 1998 and Fall 1998 issues.

These columns/features will appear as regularly as possible, subject to space constraints and the ability of the editorial team to develop articles of interest to the readership in each of the above areas.

In addition to the items mentioned above, three regular items will continue to be included in each edition. These are: "REPORT OF THE PRESIDENT," "HAVE YOU SEEN...?" and "ASB Update." As always, other items of interest submitted to the editor will be considered for publication.

Gary P. Braun, Editor

6TH ANNUAL MIDYEAR AUDITING SECTION CONFERENCE

January 13–15, 2000
Newport Beach, California

Your help in planning and conducting the Section's 2000 Midyear Conference is needed. If you are willing to volunteer your assistance in one of more of the following areas, please complete this form and hand it to a Steering Committee member or mail/fax it to the address/number below.

I. Name _____
Address _____

City _____ State _____ Zip _____
Phone () _____ Fax () _____ Email _____

II. **Reviewer:** If you are willing to assist by reviewing one to three manuscripts, please indicate your areas of competence/interest.

Research Areas _____
Research Methods _____

III. **Session Chair or Discussant:** Please indicate if you are willing to assist in either of these capacities.
Session Chair _____ Discussant _____

IV. **Special Sessions:** Please provide any ideas that you have for special CPE topics, panels, workshops, etc. If you know any particular individual(s) who may be interested in the areas you recommend, please list their names. Use the back of this page for additional comments.

The Steering Committee very much appreciates your input. Mail/Fax to:

Joanna L. Ho
Graduate School of Management
University of California, Irvine
Irvine, CA 92697-3125
Phone: (949) 824-4041
Fax: (949) 824-8469
Email: jlho@uci.edu

CALL FOR PAPERS

SIXTH ANNUAL MIDYEAR AUDITING SECTION CONFERENCE

Call for Submissions

The sixth Annual Midyear Auditing Section Conference and the first Auditing Section Conference in the 21st century will be held in **Newport Beach, California**, on **January 13–15, 2000**. CPE sessions will be held on the afternoon of January 13. The remainder of the conference 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, and special session proposals. Particular emphasis will be given to papers and sessions dealing with educational issues.

The conference will be held at the *Newport Beach Marriott*. After a long, thought-provoking day of meetings, Newport Beach is a great place to shop in the comfortable outdoor settings provided by Fashion Island (an upscale shopping center just across the street from the hotel) or to relax on California's sunny beaches. Plus, it's only 20 minutes away from Disneyland—"the happiest place on earth."

Submission Guidelines

Research papers should follow the style guidelines of *Auditing: A Journal of Practice & Theory*. Other submissions should take an appropriate form to permit review of their originality, quality and usefulness. Submissions are not eligible for consideration if they (1) have been published or accepted for publication, (2) were presented at the 1999 AAA Annual Meeting, or (3) were presented at more than one AAA regional meeting or other academic conference. Papers presented at the Research Forum of the AAA Annual Meeting are eligible for consideration. It should be noted that papers accepted for presentation at the 2000 Midyear Auditing Section Conference can also be submitted for presentation at the AAA Annual Meeting scheduled for August 2000.

Abstracts only will be published in the proceedings' booklet. By December 1, 1999, authors of accepted submissions are expected to provide the designated session discussant with a final printed copy. Instructions for placing accepted papers on the Section's web site will be included in acceptance letters.

Submission Deadline

Four copies of submissions must be received by **September 3, 1999**, to be considered for the program. Early submission is encouraged. Any questions should be addressed to:

Joanna L. Ho
Accounting Faculty
Graduate School of Management
University of California, Irvine
Irvine, CA 92697-3125
Phone: (949) 824-4041
Fax: (949) 824-8469
Email: jlho@uci.edu

Concurrent Sessions Schedule
American Accounting Association
1999 Annual Meeting
San Diego, California

Monday, August 16 (1:45 PM–3:15 PM)

Session Title: Experimental Economics
Moderator: Brian Ballou, Auburn University

An Experimental Investigation of Retention and Rotation Requirements. Rachel Schwartz, Nick Dopuch, and Ron King, all of Washington University

Negotiation of Audit Litigation Settlements: An Experimental Study of the Impact of Reputational Concerns. Susan McCracken, University of Toronto

An Analysis of Settlement and Merit Under Federal Law: What Will Be the Effect of the Reform of 1995? Ron King and James Holloway, both of Washington University, and Daniel Ingberman, LECG, Inc.

Discussant: Bob Tucker, University of Illinois at Urbana–Champaign

Monday, August 16 (3:45 PM–5:15 PM)

Session Title: Audit Pricing
Moderator: David Satava, University of Houston–Victoria

Auditor Independence and Fee Dependence. Allen Craswell, University of Sydney, Janet Laughton, University of Southern Queensland, and Donald Stokes, University of Technology, Sydney

The Contribution of Internal Audit as a Determinant of External Audit Fees and Factors Influencing This Contribution. William L. Felix, Jr., University of Arizona, Audrey A. Gramling, Wake Forest University, and Mario J. Maletta, Northeastern University

Pricing Service Quality in Audit Engagements. Allen Craswell and David Peiris, both of the University of Sydney

Discussant: Dan Simunic, University of British Columbia

Tuesday, August 17 (10:30 AM–Noon)

Session Title: Auditor Reporting
Moderator: Alan Reinstein, Wayne State University

Modified Audit Reports, Executive Compensation, and CEO Turnover. Clive Lennox, University of Bristol

Going-Concern Initial Public Offerings. Michael Willenborg, University of Connecticut, and James McKeown, Penn State University

Market Differentiation of Subsequently Bankrupt and Viable Companies: An Analysis of First-Time Going-Concern Report Recipients. Marshall Geiger, University of Rhode Island, and Allen Blay, University of Florida

Discussant: Dave Williams, Ohio State University

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Tuesday, August 17 (10:30 AM–Noon) Continued

Session Title: Auditor Choice

Moderator: Richard Riley, West Virginia University

The Association Between External Monitoring and Earnings Management in the Property-Casualty Insurance Industry. Jennifer J. Gaver, University of Georgia and Jeffrey S. Paterson, Florida State University

Disclosure Quality and Auditor Choice. Kimberly A. Dunn, Baruch College–CUNY, Brian W. Mayhew, Georgia State University, and Suzanne G. Morsfield, Baruch College–CUNY

Auditor Choice and Retained Ownership in the Market for New Issues: Experimental Evidence. Galen Sevcik, Brian Mayhew, both of Georgia State University, and Jeff Schatzberg, University of Arizona

Discussant: Jeff Payne, University of Mississippi

Tuesday, August 17 (1:45 PM–3:15 PM)

Session Title: Audit Quality

Moderator: Krishna R. Kumar, The George Washington University

The Association Between Audit Quality and Firm Specific Risk. Philip Lee, University of Sydney, Donald Stokes, University of Technology, Sydney, and Stephen Taylor, University of Sydney

The Determinants and Implications of Audit Quality: A Self-Selection Analysis from the U.S. Credit Union Industry. Elizabeth Keating, Northwestern University

Improved Auditor Independence and the Flight from Audit Quality: Evidence from China. Mark L. DeFond, University of Southern California, T. J. Wong, Hong Kong University of Science and Technology, and Shuhua Li, Shanghai University

Discussant: Jere Francis, University of Missouri–Columbia

Session Title: Audit Process

Moderator: Cathleen L. Miller, University of Michigan–Flint

The Effects of Gender and Task Complexity on Information Processing Effort During Planning Analytical Procedures. Ed O'Donnell, Arizona State University and Eric Johnson, University of Texas at Arlington

Risk Reduction and the Audit Review Process: The Interaction of Review Hierarchy, Team Processing, and Industry Specialization. Vincent Owoso, Bentley College, William F. Messier, Georgia State University, and John G. Lynch, Duke University

An Empirical Investigation of the Relation Between Risk Assessments, Sample Sizes, and Error Detection. Robert Allen, University of Utah and Randal J. Elder, Indiana University

Discussant: Arnold Schneider, Georgia Institute of Technology

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Tuesday, August 17 (3:45 PM–5:15 PM)

Session Title: Panel Session: Fraudulent Financial Reporting, 1987–1997: An Analysis of U.S. Public Companies

Panelists:

Mark S. Beasley, North Carolina State University, Co-Researcher
John J. Flaherty, Chairman—Committee of Sponsoring Organizations of the Treadway Commission
Dana R. Hermanson, Kennesaw State University, Co-Researcher
Lynn Turner, Chief Accountant, U.S. Securities and Exchange Commission

Wednesday, August 18 (10:30 AM–Noon)

Session Title: Corporate Governance

Moderator: Bill Thomas, Baylor University

Audit Committee Composition and Member Experience: An Agency Cost Analysis. Mark S. Beasley, North Carolina State University and Steve Salterio, University of Waterloo

Auditor Selection and Audit Committee Characteristics. Lawrence S. Abbott, University of Memphis and Susan Parker, Santa Clara University

Auditor Choice: The Role of Interlocking Directorates. Christine Jubb and Keith Houghton, both of the University of Melbourne

Discussant: Terry Neal, University of Kentucky

Session Title: Panel Session: Internal Auditing—Visioning the Future

Panelists:

Jack Krogstad, Creighton University, Director of Research for the Institute of Internal Auditor's Guidance Task Force
Ronald Isyk, Deloitte & Touche
Larry Rittenberg, University of Wisconsin–Madison, Member of the Institute of Internal Auditor's Guidance Task Force
Anthony Ridley, Former General Auditor at Ford Motor Co., Chairman of the Institute of Internal Auditor's Guidance Task Force

Wednesday, August 18 (1:45 PM–3:15 PM)

Session Title: Audit Planning

Moderator: Heather Hermanson, Kennesaw State University

The Effects of Fee Pressure and Partner Pressure on Audit Planning Decisions. James L. Bierstaker, University of Massachusetts Boston and Arnold Wright, Boston College

The Impact of Internal Auditor Role and Compensation on External Auditors' Planning Judgments and Decisions. F. Todd DeZoort, University of South Carolina, Richard W. Houston, University of Alabama, and Mike Peters, University of Maryland

Evaluating Audit Risk: The Effects of Industry Characteristics, Experience, and Tolerance-for-Ambiguity. Robert W. Rutledge, Monmouth University, and Bilal Makkawi, Morgan State University

Discussant: Jean Bedard, Northeastern University

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Wednesday, August 18 (1:45 PM–3:15 PM) Continued

Session Title: Audit Pricing: Theory and Evidence

Moderator: Jack Kiger, University of Tennessee

Market Concentration, Price Competition, and Audit Fees: Evidence from the Ontario Municipal Audit Market. Sati P. Bandyopadhyay, University of Waterloo and Jennifer Kao, University of Alberta

Agency Costs, Audit Pricing, and Auditor Switches. Florin Sabac and Dan Simunic, both of the University of British Columbia

Production Efficiency and the Pricing of Audit Services. Michael Stein, University of Calgary, Nicholas Dopuch, Mahendra Gupta, both of Washington University, and Dan Simunic, University of British Columbia

Discussant: Phillip Stocken, University of Pennsylvania

FORUM PAPERS

Wednesday, August 18 (1:45 PM–3:15 PM)

Auditor Resignations vs. Dismissals: An Examination of the Differential Effects on Market Liquidity and Trading Activity. K. K. Raman, University of North Texas and Jeff P. Boone, Mississippi State University

Human Capital and Legal Liability Reform in the Audit Market. Chiawen Liu, Yuan Ze University, Chi-Wen Jevons Lee, Tulane University, and Taychang Wang, National Taiwan University

Audit Firm Size and Social Responsibility: An Examination of Criteria Influencing the Going-Concern Opinion Decision. Asokan Anandarajan and Gary Kleinman, both of the New Jersey Institute of Technology

Exploring Collusion through Consolidation of Positions, Duties, and Controls as a Factor in Financial Statement Fraud. Brian P. Green, University of Michigan–Dearborn and Thomas G. Calderon, University of Akron

An Analysis of the Market Power versus Efficiency Effects of the 1989 Accounting Firm Megamergers. Susan H. Ivancevich, University of Tampa and Asghar Zardkoohi, Texas A&M University

Audit Committees, Corporate Governance, and Auditor Litigation. Young Park, University of Illinois at Chicago

Growth Opportunities, Dividend Payments and Audit Prices. Ferdinand A. Gul, City University of Hong Kong

Audit Report Lag: A Cycle Time Perspective. James L. Dodd and John G. Wermert, both of Drake University, and Thomas A. Doucet, Bowling Green State University

Commercialism vs. Professionalism: The Effect of Non-Audit Services on Audit Independence. Divesh Sharma, Griffith University

Corporate Governance and the Audit Process: Beyond the Audit Committee. Ganesh Krishnamoorthy, Jeff Cohen, and Arnie Wright, all of Boston College

ASB Update as of April 30, 1999

Ray Whittington, DePaul University
Academic Member of the Auditing Standards Board

In Kurt Pany's last update, he summarized pronouncements approved for issuance during 1998 and highlighted a number of projects in progress. In this update, I will focus on a few additional projects that are in process. Please contact me if you have any questions, comments or suggestions.

Omnibus SAS Exposed

In April the Board issued an exposure draft of an omnibus SAS, "Audit Adjustments, Reporting on Consistency, and Service Organizations." The proposed SAS addresses the three audit areas included in its title as described below.

Audit Adjustments. The first part of the proposed SAS addresses a concern raised by the Securities and Exchange Commission about the quality of financial reporting. The amendments establish audit requirements intended to encourage audit clients to record financial statement adjustments proposed by auditors but not considered to be material. To achieve this objective, the proposed statement:

- Adds an item to the matters generally addressed in the understanding with the client (the engagement letter). The new item states that management is responsible for adjusting the financial statements to correct material misstatements and for affirming to the auditor in the representation letter that the effects of any uncorrected misstatements brought to its attention by the auditor are not material, both individually and in the aggregate.
- Requires the auditor to obtain, in the management representation letter, management's acknowledgment that it has considered the financial statement misstatements brought to its attention by the auditor and has concluded that any uncorrected misstatements are not material, both individually and in the aggregate. It also requires that a summary of the uncorrected misstatements be included in the representation letter or in an attachment thereto.
- Requires the auditor to inform the audit committee about the uncorrected misstatements brought to management's attention by the auditor.

Reporting on Consistency. The amendments in this section clarify which changes in a reporting entity warrant a consistency explanatory paragraph in the auditor's report. They amend AU section 420 to:

- Conform the list in AU Section 420.07 of changes that constitute a change in reporting entity to the guidance in APB No. 20, *Accounting Changes*.
- Clarify that the auditor need not add a consistency explanatory paragraph to the auditor's report when a change in the reporting entity results from a transaction or event, such as the purchase or disposition of a subsidiary.

- Eliminate the requirement to add a consistency explanatory paragraph to the auditor's report when a pooling of interests is not accounted for retroactively in comparative financial statements. However, such presentation would result in the need to express a qualified or adverse opinion for the lack of compliance with generally accepted accounting principles.
- Eliminate the requirement to qualify the auditor's report and consider adding a consistency explanatory paragraph to the report if single-year financial statements that report a pooling of interests do not disclose combined information for the prior year.

Service Organizations. The amendments in the third part of the proposed SAS are intended to help auditors determine what additional information they might need when auditing the financial statements of an entity that uses a service organization to process transactions. The proposed SAS amends SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*.

Continuous Auditing

Continuous Auditing, a joint study of the Canadian Institute of Chartered Accountants (CICA) and the ASB, explores the concept, issues and viability of providing continuous assurance services. The study describes how planning, performing and reporting on a hypothetical continuous audit engagement might be structured within the context of existing U.S. and Canadian assurance standards. It focuses on characteristics that distinguish continuous audits from other kinds of audits.

The report identifies several areas for future research, including:

- What is the subject matter (types of information, systems and processes, or behavior) on which users are most likely to want continuous assurance?
- How does the auditor obtain sufficient evidence to support an opinion when it may not be practicable to readily access external sources or to wait for subsequent events to occur?
- How does the nature of the subject matter and the need to report continuously affect the way auditors determine materiality and audit risk?
- Can automated audit tools and techniques be used to obtain sufficient evidence for "soft" information, for example, estimates?
- Are other continuous assurance services, such as reviews or agreed-upon procedures, feasible?

Continuous Auditing is available and can be obtained by calling the AICPA Order Department ([888] 777-7077) and requesting product number 022510.

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CALL FOR NOMINATIONS

The Auditing Section seeks nominations for its first **NOTABLE CONTRIBUTIONS TO THE AUDITING LITERATURE AWARD**. To be eligible for nomination during this first submission period, a work must have been published during the five-year period ended December 31, 1998. 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. If a work is selected for the award from the nominations made during this first submission period, the award will be presented at the 2000 Midyear Meeting of the Auditing Section.

The criteria that will be applied to assess a work's contribution to the auditing and assurance literature are:

- The impact of the work on auditing and assurance research, education and practice;
- The potential of the work to be of interest to a large number of individuals concerned with auditing and assurance research;
- The timeliness and importance of the problem(s) addressed;
- The creativity of the research;
- The development of an appropriate theoretical framework; and
- The appropriateness of the research method and analysis.

To be eligible for consideration, 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 Contributions to the Auditing Literature Award Committee.

A work may be nominated either by the author or by any other individual with an interest in auditing research, education or practice. Nominations must include the following materials:

- Five copies of a nomination letter stating why the work is deserving of special recognition; and
- Five copies of the work.

Please send all materials to:

Barry E. Cushing
Chair, Notable Contributions to the Auditing Literature Award Committee
School of Accounting
David Eccles School of Business
University of Utah
1645 E. Campus Center Drive, Room 101
Salt Lake City, UT 84112

The deadline for nominations is **July 1, 1999**. Calendar years covered for this nominating period are 1994 through 1998.

ASB Update (Continued from page 10)

Systrust

To respond to the needs of management and business partners for assurance on the reliability of information systems, the AICPA and the Canadian Institute of Chartered Accountants (CICA) are working on developing a new attestation service called SysTrust. In a SysTrust engagement, a CPA performs procedures to determine whether the controls over a system are operating with sufficient effectiveness to enable the system to function reliably. The CPA uses the following four criteria to evaluate system reliability:

- *Availability* refers to whether the system operates and provides information in accordance with the specified requirements of that system, and whether the system is accessible for routine processing and maintenance.
- *Security* refers to whether the system is protected against unauthorized physical and electronic access. Restricting access

to a system prevents potential abuses of system components, theft of system resources, misuse of system software and improper access to private and confidential information. Security also refers to restrictions on the type of information that can be stored and the use of the information captured by the system.

- *Integrity* refers to whether the system processes the information it receives completely, accurately, promptly and in accordance with the required authorizations.
- *Maintainability* refers to the entity's ability to make changes to the system in a manner that supports current and future reliability. The system should be able to be updated so that it continues to provide system availability, security and integrity.

This material is still in draft form but should be available in several months from the AICPA.

The Role of Internal Audit in the Financial Statement Audit Process

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For over a quarter of a century, the American Institute of Certified Public Accountants (AICPA) and the Institute of Internal Auditors (IIA) have recognized the unique and potentially significant role that an entity's internal audit function can play in the external financial statement audit (see SAS No. 9 [AICPA 1975], SAS No. 65 [AICPA 1991], Specific Standard 550 [IIA 1995]). Also during this time period, the accounting academic community has conducted research investigating various aspects of the relationship between internal and external auditors. This research has been directed toward determining the extent and nature of internal audit contribution to the financial statement audit, and gaining a better understanding of the processes by which decisions to utilize the work of internal auditors are made. While evidence suggests that external auditors have not traditionally maximized their relationships with internal auditors, changes in the audit environment over the most recent decade have increased the potential for internal audit utilization and hence, underscored the importance of research in this area. Specifically, increases in competition have put downward pressures on audit fees, while at the same time, increases in the complexity of business organizations and concerns over litigation have increased the magnitude and required effectiveness of the external audit examination. These environmental changes have served to enhance the potential for internal audit contribution to the external financial statement audit and, accordingly, the need for a better understanding of internal/external auditor relations.

Our purpose here is to provide a relatively perfunctory review of academic research conducted during the last quarter of a century in the area of internal audit contribution to the financial statement audit and to highlight some of the major contributions. Our hope is that the delineation of some of the significant findings regarding the past and current role of internal auditors in the financial statement audit will: (1) provide the professional community with a greater understanding of the potential benefits of internal audit contribution to the audit process, (2) increase the communication and coordination between the two audit groups and, ultimately, (3) increase the efficiency and effectiveness of the internal auditors' contribution. For discussion purposes, we have chosen to divide the literature into four subsections based on our view of the timing and nature of the studies performed. All of the studies relevant to each section are not addressed in this paper. A more complete discussion of the literature regarding the role of the internal audit function in the financial statement audit can be found in Gramling and Maletta (1999).

Internal Audit Objectivity, Competence and Quality of Work

Much of the initial research regarding internal audit functions investigated whether external auditors followed the directives set forth in official auditing pronouncements. The earliest research focused on external auditor assessment of the three internal audit factors originally identified in SAS No. 9: internal audit objectivity,

competence and quality of work performed. In particular, these studies attempted to determine whether auditors actually considered these three factors when evaluating the overall quality of an internal audit function and, if so, the criteria that were included in the assessment of each individual factor. This literature was necessary as SAS No. 9 provided little, if any, guidance concerning how these dimensions of internal auditors should be evaluated.

In one of the important descriptive studies addressing this particular issue, Gibbs and Schroeder (1980) performed a series of surveys and experiments that led to the identification of ranked lists of criteria used by external auditors to evaluate the three internal audit factors. Their findings revealed that external auditors' assessments of internal audit competence were principally a function of the internal auditors' knowledge of company operations and the quantity and quality of the internal audit staff's supervision. Internal auditor objectivity was determined to be a function of the independence of the internal audit department and the level to which the internal audit department reports. Finally, the primary factors considered by external auditors in evaluating the quality of the internal auditors' work were management's overall support for the internal audit function and their readiness to act on internal audit recommendations. The findings of this study, as well as others like it at the time, found their way into the practice community as they provided significant practical guidance to the profession at a time when, arguably, the official pronouncements did not.

The Extent of Internal Audit Contribution to the Financial Statement Audit

As the 1980s began, internal audit research shifted its focus away from external auditors' assessments of the three internal audit factors toward questions regarding the extent of internal auditor utilization in the performance of the financial statement audit. At the time little, if any, information was available in either the practice or research communities regarding the extent and nature of internal audit activities related to the financial statement audit. One of the initial studies in this area was a survey conducted by Ward and Robertson (1980) involving internal and external auditor perceptions regarding the extent of external auditor reliance on internal auditors and the sufficiency of such reliance. The findings suggested some degree of internal audit reliance on most engagements. However, they also indicated that a majority of internal and external auditors did not believe that external auditors fully utilized the potential of the internal auditors in performing the external audit examination.

A subsequent time-series study by Wallace (1984) examined the impact of internal audit activities on external audit activities. Wallace (1984) found that from 1975 to 1981, there was an increase in the extent to which external auditors modified their audit programs as a result of internal audit activities. Similarly, she found increases in

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the utilization of internal auditors in the documentation and audit testing phases of the external audit. However, Wallace (1984) also found that, on average, only 5 percent of the total hours necessary for completing the audit were allocated to the internal audit function.

These studies were important as they provided evidence indicating that internal auditors had the potential to make a valuable contribution to the external audit examination. Yet, they also suggested that external auditors were not fully utilizing the valuable potential of their clients' internal audit departments.

The Process of Determining the Role of Internal Audit

In the mid-1980s, a number of studies refocused the research on the three internal audit factors discussed in the professional external auditing standards: objectivity, competence and quality of work performed. Instead of examining external auditors' assessments of these factors in isolation, these studies used the earlier research findings to investigate the process by which external auditors combined and weighted the three internal audit factors in making decisions to actually use the internal audit function in performing the financial statement audit. One of the primary purposes of this stream of research was to determine which factors were most critical in external auditors' decisions to utilize the internal auditors. The logic was that if certain factors could be identified as being of greater importance than others, then internal audit departments could focus on improving those qualities and, thus, increase their contribution to the external financial statement audit.

The first of these studies was performed by Brown (1983), with a series of subsequent studies performed by Abdelkhalik et al. (1983), Schneider (1984, 1985) and Margheim (1986). This research followed a similar approach to that of earlier work in that external auditors were given a description of a client and, in some cases, a particular area of the external audit. They were then provided with one or more internal audit profiles and asked to determine how and/or to what extent they would use the internal auditors in performing the external financial statement audit. The results of these studies were mixed, as no specific internal audit factor was systematically found to be most important across this series of studies. Further, the extent of internal audit reliance varied widely across auditors and across studies. These findings suggested that external auditors' decisions to rely on internal auditors were situationally determined and were likely to be more than just a function of internal audit quality or, more specifically, the competence, objectivity and work quality of the internal auditors. Instead, these studies suggested that additional environmental audit factors might play a critical role in the extent and nature of internal audit contribution to the financial statement audit.

Environmental Audit Factors and the Role of Internal Auditors

At the same time that academic research was suggesting that the use of internal auditors in the performance of the financial statement audit was not simply a function of internal audit factors, the AICPA began drafting a new, more comprehensive pronouncement

addressing internal audit reliance (SAS No. 65, AICPA 1991). These events inspired a series of additional internal audit studies that attempted to identify factors from the audit environment which could be significant in determining the extent to which internal auditors contribute to the financial statement audit. These studies included experimental work performed by Maletta (1993), Maletta and Kida (1993) and Gramling (1999). In particular, Maletta (1993) and Maletta and Kida (1993) investigated the role of various audit risk factors (i.e., inherent risk, control risk) on the extent and nature of internal audit reliance by external auditors. Gramling (1999) examined the effect of fee pressure on external auditors' decision to rely on internal audit work.

Maletta (1993) revealed that external auditors' decisions to use internal auditors as assistants in performing the audit were a function of the level of inherent risk associated with the area being audited, as well as the quality of the internal auditors. In fact, the findings of the study indicated that the process by which external auditors evaluate the quality of the internal auditors increased in complexity as the level of inherent risk increased.

Maletta and Kida (1993) examined the extent to which external auditors reduced the extent of planned external audit work due to the work of the internal audit function. Their findings indicated that the magnitude of the reduction of planned audit work was a function of both inherent and control risk factors, as well as factors associated with the competence, objectivity and work quality of the internal auditors. The study also revealed that external auditors reduced their work by up to 28 percent depending on the risk conditions and the quality of the internal auditors.

Gramling (1999) investigated whether downward pressures on audit fees could potentially affect the role of internal audit in the financial statement audit. Her results indicate that external audit managers encountering clients who explicitly impose a high level of fee pressure rely on the work of the client's internal auditor to a greater extent than audit managers encountering clients who do not explicitly state such a preference.

Overall, the importance of these studies is that they revealed that decisions to use internal auditors in the financial statement audit are not simple, nor are they merely a function of factors specific to the internal auditors. Instead, these studies indicated that environmental audit factors are considered in external auditors' decisions to rely on internal audit functions.

Conclusion

Our discussion highlights a number of findings from academic research over the last 25 years. First, the objectivity, competence and work quality of a client's internal audit function are important factors used by external auditors in assessing overall internal audit quality. Second, these same factors play a significant role in determining the extent to which the internal audit function will contribute to the completion of the financial statement audit. Third, in addition to factors specific to the internal auditors, external auditors are significantly affected by audit risk factors and client fee pressures when determining the extent to which they will rely on the work of internal auditors in performing the audit examination.

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While these findings provide a basis on which researchers and practitioners can build an understanding of internal audit's potential for contribution to the financial statement audit process, it is important to consider how the changing audit environment will influence the evolving role of internal auditors in this process. Current changes include new risk-based approaches to

financial statement auditing currently being adopted by many audit firms (e.g., Bell et al. 1997) and increasing complexity of business organizations and environments in the global economy. These changes suggest the need for future research and greater understanding of the potential role of internal audit in the financial statement process. It is our hope that researchers and practitioners will work together to determine how to best increase the efficiency and effectiveness with which the internal and external auditors coordinate their efforts to complete the financial statement audit.

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Fraudulent Financial Reporting: 1987–1997

An Analysis of U.S. Public Companies

Research Commissioned by COSO, the Committee of Sponsoring Organizations
of the Treadway Commission, Copyright COSO, 1999

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Executive Summary

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) sponsored this research project to provide an extensive updated analysis of financial statement fraud occurrences. This research has three specific objectives:

- To identify instances of alleged fraudulent financial reporting by registrants of the U.S. Securities and Exchange Commission (SEC) first described by the SEC in an Accounting and Auditing Enforcement Release (AAER) issued during the period 1987–1997.
- To examine certain key company and management characteristics for a sample of these companies involved in instances of financial statement fraud.
- To provide a basis for recommendations to improve the corporate financial reporting environment in the U.S.

We analyzed instances of fraudulent financial reporting alleged by the SEC in AAERs issued during the 11-year period between January 1987 and December 1997. We focused on AAERs that involved an alleged violation of Rule 10(b)-5 of the 1934 Securities Exchange Act or Section 17(a) of the 1933 Securities Act given that these represent the primary antifraud provisions related to financial statement reporting.

Our search identified nearly 300 companies involved in alleged instances of fraudulent financial reporting during the 11-year period. From this list of companies, we randomly selected approximately 200 companies to serve as the final sample that we examined in detail.

Summary of Findings

Nature of Companies Involved

- **Relative to public registrants, companies committing financial statement fraud were relatively small.** The typical size of most of the sample companies ranged well below \$100 million in total assets in the year preceding the fraud period. Most companies (78 percent of the sample) were not listed on the New York or American Stock Exchanges.

Nature of the Control Environment (Top Management and the Board)

- **Top senior executives were frequently involved.** In 72 percent of the cases, the AAERs named the chief executive officer (CEO), and in 43 percent the chief financial officer (CFO) was associated with the financial statement fraud. When considered together, in 83 percent of the cases, the AAERs named either or both the CEO and CFO as being associated with the financial statement fraud.
- **Most audit committees only met about once a year or the company had no audit committee.** Audit committees of the fraud companies generally met only once per year. Twenty-five percent of the companies did not have an audit committee. Most audit committee members (65 percent) did not appear to be certified in accounting or have current or prior work experience in key accounting or finance positions.
- **Boards of directors were dominated by insiders and “gray” directors with significant equity ownership and apparently little experience serving as directors of other companies.** Approximately 60 percent of the directors were insiders or “gray” directors (i.e., outsiders with special ties to the company or management). Collectively, the directors and officers owned nearly one-third of the companies’ stock, with the CEO/President personally owning about 17 percent. Nearly 40 percent of the boards had not one director who served as an outside or gray director on another company’s board.

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Fraudulent Financial Reporting (Continued from page 15)

- **Family relationships among directors and/or officers were fairly common, as were individuals who apparently had significant power.** In nearly 40 percent of the companies, the proxy provided evidence of family relationships among the directors and/or officers. The founder and current CEO were the same person or the original CEO/President was still in place in nearly half of the companies.

Nature of the Frauds

- **Cumulative amounts of frauds were relatively large in light of the relatively small sizes of the companies involved.** The average financial statement misstatement or misappropriation of assets was \$25 million and the median was \$4.1 million. While the average company had assets totaling \$533 million, the median company had total assets of only \$16 million.
- **Most frauds were not isolated to a single fiscal period.** Most frauds overlapped at least two fiscal periods, frequently involving both quarterly and annual financial statements.
- **Typical financial statement fraud techniques involved the overstatement of revenues and assets.** Over half the frauds involved overstating revenues by recording revenues prematurely or fictitiously. Many of those revenue frauds only affected transactions recorded right at period end (i.e., quarter end or year end). About half the frauds also involved overstating assets by understating allowances for receivables, overstating the value of inventory, property, plant and equipment and other tangible assets, and recording assets that did not exist.

Issues Related to the External Auditor

- **All sizes of audit firms were associated with companies committing financial statement frauds.** Fifty-six percent of the sample fraud companies were audited by a Big 8/6 auditor during the fraud period, and 44 percent were audited by non-Big 8/6 auditors.
- **All types of audit reports were issued during the fraud period.** A majority of the audit reports (55 percent) issued in the last year of the fraud period contained unqualified opinions. The remaining 45 percent of the audit reports issued in the last year of the fraud departed from the standard unqualified auditor's report. Three percent of the audit reports were qualified due to a GAAP departure during the fraud period.
- **Financial statement fraud occasionally implicated the external auditor.** Auditors were explicitly named in the AAERs for 56 of the 195 fraud cases (29 percent) where AAERs explicitly named individuals. They were named for either alleged involvement in the fraud (30 of 56 cases) or for negligent auditing (26 of 56 cases). Most of the auditors explicitly named in an AAER (46 of 56) were non-Big 8/6 auditors.
- **Some companies changed auditors during the fraud period.** Just over 25 percent of the companies changed auditors during the time frame beginning with the last clean financial statement period and ending with the last fraud financial statement period. A majority of the auditor changes occurred during the fraud period (e.g., two auditors were associated with the fraud period) and a majority involved changes from one non-Big 8/6 auditor to another non-Big 8/6 auditor.

Consequences for the Companies

- **Severe consequences awaited companies committing fraud.** Consequences of financial statement fraud to the company often include bankruptcy, significant changes in ownership and delisting by national exchanges, in addition to financial penalties imposed. A large number of the sample firms (over 50 percent) were bankrupt/defunct or experienced a significant change in ownership following disclosure of the fraud.

Summary of Implications

Implications Related to the Nature of the Companies Involved

- The national stock exchanges and regulators should evaluate the trade-offs of designing policies that might exempt small companies, given the relatively small size of the companies involved in financial statement fraud. A regulatory focus on companies with market capitalization in excess of \$200 million may fail to target companies with greater risk for financial statement fraud activities.

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Implications Related to the Nature of the Control Environment (Top Management and the Board)

- The importance of the organization's control environment cannot be overstated, as emphasized in COSO's *Internal Control—Integrated Framework*. Monitoring the pressures faced by senior executives (e.g., pressures from compensation plans, investment community expectations, etc.) is critical.
- The concentration of fraud among companies with under \$50 million in revenues and with generally weak audit committees highlights the importance of rigorous audit committee practices even for smaller organizations. In particular, the number of audit committee meetings per year and the financial expertise of the audit committee members may deserve closer attention.
- It is important to consider whether smaller companies should focus heavily on director independence and expertise, like large companies are currently being encouraged to do. In the smaller company setting, due to the centralization of power in a few individuals, it may be especially important to have a solid monitoring function performed by the board.
- Investors should be aware of the possible complications arising from family relationships and from individuals (founders, CEO/board chairs, etc.) who hold significant power.

Implications Related to the Nature of the Frauds

- The multi-period aspect of financial statement fraud, often beginning with the misstatement of interim financial statements, suggests the importance of interim reviews of quarterly financial statements and the related controls surrounding interim financial statement preparation, as well as the benefits of continuous auditing strategies.
- The nature of misstatements affecting revenues and assets recorded close to or as of the fiscal period end highlights the importance of effective consideration and testing of internal control related to transaction cut-off and asset valuation. Based on the assessed risk related to internal control, the auditor should evaluate the need for substantive testing procedures to reduce audit risk to an acceptable level and design tests in light of this consideration. Procedures affecting transaction cut-off, transactions terms and account valuation for end-of-period accounts and transactions may be particularly relevant.

Implications Regarding the Roles of External Auditors

- There is a strong need for the auditor to look beyond the financial statements to understand risks unique to the client's industry, management's motivation toward aggressive reporting and client internal control (particularly the tone at the top), among other matters. As auditors approach the audit, information from a variety of sources should be considered to establish an appropriate level of professional skepticism needed for each engagement.
- The auditor should recognize the potential likelihood for greater audit risk when auditing companies with weak board and audit committee governance.

Conclusion

A copy of the full report can be ordered through the AICPA by calling [888] 777-7077 and requesting item #990036. We hope that this research will be useful to the auditing community.

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HAVE YOU SEEN...?

Troy Hyatt, University of Northern Iowa, and Mark Taylor, University of Nebraska

“An Investigation of Investor Reaction to the Information Content of a Going-Concern Audit Report While Controlling for Concurrent Financial Statement Disclosure,” by S. J. Carlson, G. W. Glezen, and M. E. Benefield, *Quarterly Journal of Business and Economics* (Vol. 37, No. 3, 1998): 25–39.

Noting that previous event studies of the information content of going-concern audit reports (GCAR) have not attempted to control for concurrent financial information disclosures, this study uses analysis of covariance (ANCOVA) to control for more concurrent financial information disclosures relative to previous studies. The authors analyze 88 firms that received GCARs against an equal number of control firms matched by fiscal year, industry and a measure of financial distress. The study employs individual security return as the dependent variable and an indicator variable representing the presence or absence of a GCAR as the independent variable of interest. Covariates consist of variables representing unexpected earnings, market returns, size and five financial ratios representing financial statement information. The authors report that during the event period the difference in adjusted means for the GCAR and non-GCAR groups is significant. These results suggest that financial statement readers find a GCAR useful for firm valuation purposes.

“Organizational Levels and Perceived Importance of Attributes for Superior Audit Performance,” by H. Tan, *ABACUS* (Vol. 5, No. 1, 1999): 77–90.

This article examines the attributes considered to be important for superior performance as an auditor and the changing importance of these attributes at different levels of the firm. It also investigates whether auditors are aware of the relative importance of these attributes. Auditors from three Big 6 firms provided responses on the relative importance of various attributes for superior performance. The results indicate variation in the relative importance of these attributes across different organizational levels. For example, some attributes that were deemed important at lower ranks were considered less important at higher ranks, and vice versa. In addition, the results suggest that auditors generally have low to moderate levels of awareness of the relative importance of the 20 attributes analyzed in the study and considered to be important for superior performance as an auditor.

“The Effect of Audit Seniors’ Decisions on Working Paper Documentation and on Partners’ Decisions,” by D. N. Ricchiute, *Accounting, Organizations and Society* (Vol. 24, No. 2, 1999): 155–171.

This study reports on previous research that indicates that the memories of working-paper preparers may be biased toward evidence consistent with their prior decisions, but that reviewers ex-

posed to the same set of evidence can mitigate the bias by evaluating inconsistent evidence. In this study, the author tests whether audit seniors’ decisions bias their ability to recognize evidence to document in working papers, and whether biased documentation affects the decisions of audit partners who are exposed only to the subset of evidence that seniors recognize and document. The first experiment confirms that audit seniors’ prior decisions bias their memories for evidence to document in working papers, and also creates materials for the second experiment. The second experiment offers a new insight: when exposed only to the evidence that seniors recognize and document, partners make decisions biased in the direction of the seniors’ decisions, since not all of the inconsistent evidence is documented. Experimental procedures controlled for four alternative interpretations: justification, evidence order, recency and primacy.

“Bias and Accuracy of Management Earnings Forecasts: An Evaluation of the Impact of Auditing,” by B. J. McConomy, *Contemporary Accounting Research* (Vol. 15, No. 2, 1998): 167–195.

This paper assesses how the bias and accuracy of managers’ earnings forecasts in prospectuses were affected by a 1989 regulation that required the forecasts to be audited by public accountants. Theory suggests that auditors’ association with the forecasts would reduce positive (optimistic) bias by reducing moral hazard. Regulators expected that the audit requirement would also improve the accuracy of the forecasts. Both predictions were tested using management earnings forecasts disclosed in prospectuses of Canadian initial public offerings. The results show that audited forecasts contained significantly less positive bias than reviewed forecasts, but there was only a marginally significant improvement in accuracy.

“Setting Tolerable Misstatements When Auditing Aggregated Accounts,” by O. Barron, S. M. Groomer, and M. Swink, *Decision Sciences* (Vol. 29, No. 4): 1005–1033.

As generally accepted auditing standards require auditors to plan audits of clients’ account balances, tolerable misstatement amounts must be established for each account that will be sampled. This article presents a remedy to the perceived difficulties associated with classical sampling approaches, which have not been widely used in audit practice. The solution is an efficient, easily implementable optimal solution method for the problem of setting tolerable misstatements in the presence of constraints on tolerable misstatements for individual accounts as well as for the overall audit. The authors’ method suggests when the materialities of certain accounts or the materiality of the overall audit are irrelevant to the problem. The authors provide several examples, which

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Have You Seen...? (Continued from page 18)

demonstrate the method's solution approach and the settings in which the approach proves more effective or more efficient than that provided by monetary unit sampling.

“A Note on Going-Concern Modified Audit Reports and Subsequent Bankruptcies Before and After SAS No. 59,” by M. A. Geiger, K. Raghunandan, and D. V. Rama, *Accounting Enquiries* (Vol. 8, No. 1): 1–34.

In contrast to previous papers that have examined the proportion of bankrupt companies which did not receive going-concern modified audit reports (a Type II reporting error), this paper examines the subsequent viability status for companies that received a first-time going-concern modified audit report (Type I reporting errors) before and after SAS No. 59. The results show that 13.6 percent and 24.3 percent of companies that received a first-time going-concern modified audit report in the post-SAS No. 59 period entered bankruptcy within one year and two years, respectively. They also showed that only 10.1 percent and 20.2 percent of companies receiving a first-time going-concern modified report in the pre-SAS No. 59 period entered bankruptcy within one year and two years, respectively. After controlling for financial stress and company size, the authors find that differences in the proportions of companies with first-time going-concern modified audit reports filing for bankruptcy before and after SAS No. 59, in both the one-year and two-year time frames, are not statistically significant.

“An Examination of the Auditing Standards Promulgation Process Involving SAS No. 69,” by J. E. McEnroe and S. C. Martens, *Journal of Accounting and Public Policy* (Vol. 17, 1998): 1–26.

This paper examines the development of Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*. The authors reviewed all of the comment letters to the exposure draft of the SAS to attempt to assess whether there are certain biases present in the standard-setting process. Specifically, the authors wanted to determine whether certain organizations' comments (proposed modifications to the SAS) were more likely to be integrated into the final Statement than others. Results did *not* support the following propositions: (1) comments from large CPA firms are more likely to be integrated than comments from smaller CPA firms; (2) comments from an organization having a partner or employee who is a current ASB member are more likely to be integrated than comments from organizations that do not have a current ASB member; and (3) comments from state auditors are more likely to be integrated than comments from other sources. However, results did support the thesis that comments from an organization outside the AICPA whose domain of control was threatened by the proposed SAS (the FASB, GASB and the National State Auditors Association) are more likely to be integrated than comments from organizations whose domain of control was not threatened.

“Competition in Auditing: Evidence from Entry, Exit, and Market Share Mobility in Germany versus The Netherlands,” by W. F. J. Buijink, S. J. Maijoor, and R. H. G. Meuwissen, *Contemporary Accounting Research* (Vol. 15, No. 3): 385–404.

The primary purpose of this paper is to document some dynamic characteristics of two audit markets, which have distinct regulatory regimes, and to use these characteristics to evaluate the audit market competition in these markets. The characteristics examined are audit market share mobility (defined as the amount of market share switching between audit firms for a given period of time), audit firm entry and audit firm exit. The audit markets compared are the more regulated German market and the more liberal Dutch market. The data used in the study includes all firms active in the two audit markets in the period 1970 to 1994. Results indicate that although the Dutch market is more concentrated than the German market, the Dutch market also has higher market share mobility, higher audit firm entry and higher audit firm exit. The results also hold when the analysis is restricted to only the largest audit firms. As a result, this study's findings suggest that high levels of concentration do not necessarily indicate limited competition.

“An Analysis of the Economic Consequences of the Proportionate Liability Rule,” by D. K. Chan and S. Pae, *Contemporary Accounting Research* (Vol. 15, No. 4): 457–480.

The purpose of this paper is to present a theoretical model to analyze the economic consequences of a change from joint and several liability to proportionate liability in litigation involving public accountants. The large public accounting firms, in reaction to the litigation explosion they faced, issued a Statement of Position in 1992 calling for a replacement of joint and several liability with proportionate liability, and the Private Securities Litigation Reform Act of 1995 did just that. The authors examine the incentive effects of proportionate liability on both the auditor's effort decision and the financial statement users' litigation decision. The authors' analysis demonstrates that replacing joint and several liability with proportionate liability decreases, under certain conditions, the equilibrium audit effort, the probability of litigation, the market price of the firm and audit fees. However, even though proportionate liability reduces the equilibrium audit effort, the authors also demonstrate that it can increase aggregate social welfare.

“An Examination of Factors Affecting Audit Practice Development,” by J. R. Cohen and G. M. Trompeter, *Contemporary Accounting Research* (Vol. 15, No. 4): 481–504.

This paper reports the results of an experiment designed to examine the effect of certain practice development factors on auditors' acceptance/retention decisions and financial reporting judgments. The two practice development factors investigated are as follows: (1) existing vs. potential client and (2) a more vs. less aggressive (with respect to practice development issues) engagement partner. Seventy-four audit managers from two Big 6 firms

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Integrating Computer-Assisted Audit Tools in Your Audit Course

By Jeanine S. Leonard, Tim Louwers and Alicia Rieffel

Note to instructor: The separate Teaching Note can be found on page 23.

While auditors' use of computers to write memos, perform analytical procedures and prepare audit programs is now relatively commonplace, advances in audit software, specifically the advent of Computer-Assisted Audit Tools (or Techniques) (CAATs) represents one of the most significant advances in technology affecting the audit profession. The purpose of this article is to briefly discuss CAATs and to demonstrate how students can be exposed to CAATs in an introductory audit class.

The development of audit software, such as ACL (Audit Command Language) and IDEA (Interactive Data Extraction and Analysis), has resolved a persistent problem plaguing auditors—the difficulty of directly accessing client computer information. Recent innovations have allowed auditors with little or no computer background to perform tasks that used to be reserved for information system auditors. Advances in technology (including the increased usage of personal computers (PCs) in the business community) have allowed auditors greater access to client data directly from the auditor's PC. Performing tasks once reserved for computer audit specialists, today's auditors are able to quickly access client data to perform such tasks as:

1. *Footing fields.* Entry-level accountants will no longer need to be assigned the task of footing the General Ledger.
2. *Selecting samples and printing confirmations.* Most of the audit software packages contain easy-to-understand commands for drawing attribute samples, stratified random samples and dollar-unit samples. Once the sample has been drawn, most audit software packages have utilities for generating confirmations.
3. *Scanning client computer data files for unusual situations.* Auditors can quickly scan large data files for receivables with credit balances, debits in revenue accounts or credits in expense accounts.
4. *Performing detailed analytical procedures.* CAATs allow the auditor to quickly age accounts receivables according to auditor-specified parameters.
5. *Sorting client information to meet the auditors needs.* Duplicate payments can be found by sorting payments by invoice number

and amount paid. By looking for sequence gaps, auditors can quickly identify missing documents (e.g., purchase orders, invoices, etc.). Telephone records can be quickly sorted and scanned to ensure that employees are not misusing company telephones.

6. *Documenting procedures and findings.* Another benefit of using audit software packages is the ease of documenting procedures performed. Most audit software packages document the time, date and procedure performed, allowing auditors to focus more attention on value-added activities.

In summary, CAATs are changing the way auditors perform their responsibilities, allowing them to complete their audits more efficiently *and* more effectively. Audit software is being used to analyze large data files, identify anomalies, compare fields, perform queries, develop reports and document audit steps. More importantly, tests performed with the aid of audit software can be performed on entire populations, rather than just samples. Internal auditors can report to management on the basis of "100 percent" tests, thus giving management a complete picture of the area in question. Given the increased emphasis on fraud detection (SAS No. 82), CAATs provide auditors with the flexibility to develop creative fraud detection procedures. For example, audit software may assist an auditor in comparing an Accounts Payable file, a Payroll file and a Contractor file, to determine whether any current employees are being paid as contractors. Similarly, lists of vendor addresses can be compared to employee address files to see whether employees are paying invoices to companies that they own or operate. Finally, using CAATs can also allow auditors to play a consultative role, instructing clients how to use CAATs for their own benefit.

There are both positives and negatives that need to be addressed in using Computer-Assisted Audit Techniques. The use of these and other tools cannot be simply taught to an auditor. After the software is presented to the auditor, the auditor must be able to develop creative tests that are applicable to each unique situation; in other words, there may not be a "cookie-cutter" approach to testing each time. The converse is that these tools challenge the auditor to think creatively to find ways to perform audit tasks more

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Have You Seen...? *(Continued from page 19)*

participated in the study. The case used in the experiment described a (potential) client who was proposing a relatively aggressive position with respect to accounting for research and development costs. After reading the case materials, the manager participants were asked, among other things, to indicate how much effort they believed should be expended in attempting to obtain (or keep) the client and whether they would recommend accepting the (potential) client's position on the accounting for research and development costs.

Results indicate that both the type of client (current or potential) and the type of partner (more or less aggressive) significantly affected the auditors' judgments. Specifically, subjects in the current client condition, as well as those in the more aggressive partner condition, were more likely to recommend expending effort to obtain (or keep) the client. In addition, subjects who were willing to expend more effort to obtain (or keep) the client and those in the more aggressive partner condition were more likely to recommend accepting the client's accounting position with respect to research and development costs.

Integrating Computer-Assisted Audit Tools (Continued from page 20)

efficiently and effectively. These benefits are passed directly on to the client, leading to a closer business partnering. More importantly, these creative-thinking skills can be taught in the classroom.

Integrating CAATs in the Audit Classroom

For the most part, the widely used audit software packages (such as ACL and IDEA) are very similar. Most have been developed from standard spreadsheet applications with which students are already familiar. These specialized spreadsheet applications, however, have been modified such that common audit tasks can be performed through accessing predeveloped macros at the touch of a button. In addition, the audit software packages can handle much larger data sets than most spreadsheet packages.

There are several methods that we have used to introduce students to CAATs. Two of the most popular audit tools (ACL and IDEA) have web sites that allow guided tours and/or free product samples:

1. ACL has a web site (<http://www.acl.com/>) tutorial that is free for students to download and to experiment with to discover the software's capabilities. ACL only asks that the students indicate that they are students, so that a salesperson will not follow up on the contact.
2. IDEA is an audit software package developed by the Canadian Institute of Chartered Accountants (<http://www.cica.ca/idea/index.htm/>). Instructors can obtain a free limited demonstration version of the software to either distribute among their students or to load onto a local area network (LAN) from Audimation ([281] 345-2800 or email: info@audimation.com), the U.S. distributor of IDEA. They have also prepared an instructional case that is available on their web site (it is a self-extracting file that includes both the case study and the data

files). Students are walked through a series of exercises introducing them to the software's features.

3. Educators may provide students with experience with CAATs even in a classroom that has limited technological capabilities. After discussing the capabilities of the audit software packages, we challenge students to come up with applications for the software. For example, we have developed several class exercises (see appendix) to encourage students to consider ways that (1) suspicious records in data could be identified manually and (2) that CAATs could assist with examining 100 percent of larger populations, increasing both efficiency and effectiveness. Since the audit software packages evolved from spreadsheet applications, we next provide students with an Excel spreadsheet containing detailed inventory information (e.g., product number, product description, quantity, location, unit cost, market value, date last sold, quantity last sold). We then ask students to come up with audit procedures (e.g., cost and market value extensions, footing of field totals, field comparisons for lower of cost or market value analysis, stratification and identification of negative quantities using sorting, etc.) that could be performed using only the procedures available in Excel, in essence challenging them to develop their own versions of audit software.

Our students have found their experience with CAATs to be extremely beneficial. Not only do they have early exposure to software that they will be using in the field, but they have also found that listing their CAATs skills on their resumes has attracted significant interest from prospective employers.

Jeanine Leonard is an IT Auditor with Lockheed Martin Corporation. Tim Louwers and Alicia Rieffel teach internal, external, and IS auditing at Louisiana State University.

INTEGRATING COMPUTER-ASSISTED AUDIT TOOLS APPENDIX

Assignment: Examine the following subsets of an organization's database and find ten errors or *potential* frauds. The information is as of 12/31/98.

Payroll File (Complete file)

Employee #	Soc-Sec #	First Name	Last Name	Address	City	State	Zip	Birth Date
500001	435-29-3091	Mike	Smith	#1 Chateau Mouton	St. Louis	MO	70802	11/15/72
500002	435-29-3092	Anthony	Jones	#23 Edgewood Dr.	St. Louis	MO	70802	8/16/64
500003	435-29-3093	Bonnie	Albert	#3 Rhine St.	Chalmette	MO	70083	5/12/38
500004	435-29-3094	Emile	Abagoulee	#5 Billyday Ave.	Conner	MO	70084	3/12/02
500005	435-29-3095	Martin	Albert	#7 Chateau Pontet Canet Dr.	Conner	MO	70084	7/25/33
500006	435-29-3096	James	Anderson	1013 Houma Blvd	Conner	MO	70084	3/30/12
500007	435-29-3097	Minnie	Baudot	1029 Minden Ave	Delhi	MO	70085	4/9/90
500008	435-29-3098	Rosalie	Blum	103 St. William Circle	Derby	MO	70086	11/22/72

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Integrating Computer-Assisted Audit Tools (Continued from page 21)**Vendor File (Complete file)**

Vendor #	Employer ID	Company	Address	City	State	Zip
011	435-29-3092	ABC Rental	PO Box 123	Destrehan	MO	70088
012	435-29-3099	William Landscape	1031 Alta St	Des Allemandes	MO	70087
013	435-29-3100	Tom Towing	1033 Minden Ave	Destrehan	MO	70088
014	435-29-3101	Terry Automotive	1037 Minden Ave	Destrehan	MO	70088
015	435-29-3102	Richard Computers	109 N Valley Stream	Destrehan	MO	70088

Retirement File (Complete file)

Employee#	Soc-Sec #	First Name	Last Name	Address	City	State	Zip	Birth Date
500015	435-29-3089	Harold	Fasley	1609 Satsuma St.	Harvey	MO	70095	11/15/25
500016	435-29-3105	Randy	Fasley	1617 Belmont Pl.	Harvey	MO	70095	8/16/15
500018	435-29-3107	Harold	Hiermann	1633 Hall Ave.	Hoover	MO	70096	3/12/20
500021	433-29-3091	Chris	Hingle	176 Dan River Ct.	Temple	MO	70098	8/15/00
500022	433-29-3111	Craig	Jacks	1784 Carol Sue Ave.	Temple	MO	70098	11/22/26
500024	435-29-3092	Anthony	Jones	#23 Edgewood Dr.	St. Louis	MO	70802	8/16/64

Full Disability File (Complete file)

Employee #	Soc-Sec #	First Name	Last Name	Address	City	State	Zip
500026	433-29-3096	Timothy	Hodges	2600 Oregon Dr.	Temple	MO	70098
500027	433-29-3097	Byron	Hubbard	2612 Hudson Pl.	Temple	MO	70098
500028	433-29-3098	Alexis	Hubschmitt	266 Carolyn Dr.	Temple	MO	70098
500029	433-29-3099	Carol	Irons	266 Carolyn Dr.	Temple	MO	70098
500030	435-29-3111	Craig	Jacks	1784 Carol Sue Ave.	Temple	MO	70098

Annual Medical Payments (Complete file)

Employee #	Soc-Sec #	First Name	Last Name	Amount
500026	433293096	TIMOTHY	HODGES	\$ 4,800.00
500027	433293097	BYRON	HUBBARD	\$ 2,000.00
500028	433293098	ALEXIS	HUBSCHMITT	\$ 3,600.00
500029	433293099	CAROL	IRONS	\$ 250.00
500030	435293111	CRAIG	JACKS	\$ 1,800.00

Quarterly Long Distance Phone Records

Employee #	First Name	Last Name	Amount	Duration	Position
500005	Martin	Albert	\$400	4000 min 10 sec	Receptionist
500006	James	Anderson	\$200	2000 min 05 sec	Executive
500007	Minnie	Baudot	\$500	5000 min 08 sec	Telemarketer
500017	Nicole	Gedenfield	\$250	2500 min 03 sec	Telemarketer

Award Winning Auditing Monograph Now Available on the Web

Wanda A. Wallace, The John N. Dalton Professor of Business Administration at the College of William and Mary, has had her Wildman Award-winning monograph, "The Economic Role of the Audit in Free and Regulated Markets," placed on the popular Rutgers web site.

The monograph can be accessed at <http://raw.rutgers.edu/raw/wallace/homepage.html>. The monograph was originally supported by the Touche Ross Aid to Education Foundation. The monograph is used in both undergraduate and graduate classrooms.

CAATS TEACHING NOTE

We assign the preceding manual (group) exercise as a precursor to talking about CAATS' capabilities. The purpose of the exercise is to get the students to understand the relationships among different databases. With much larger data sets, the relationships are even more difficult to discern. After discussing CAATS, we then return to the exercise and challenge the students to develop CAATS procedures that would be able to identify similar inconsistencies and potential frauds in a much larger database than the one presented.

The following findings are "red flags" that may require additional auditor investigation.

1. Payroll files contain three employees who are outside of the normal working age according to this file:

- Emily Abagoulee is 96 years old.
- James Anderson is 86 years old.
- Minnie Boudor is 8 years old.

(Students can determine this information by comparing birth date to current date provided.)

2. The Vendor file contains one vendor identification number (social security number) that is identical to that of a current employee (Anthony Jones). Additionally, the address is a Post Office Box.

3. The Retirement file contains two suspicious retirees:

- Anthony Jones appears as a retiree and as a 34-year-old active employee.
- Retiree Chris Hingle appears to be alive at 98 years old.

4. One former employee (Craig Jacks) appears in both the Disability and the Retirement files.

5. In the Medical Reimbursements file, Carol Irons is fully disabled and has claimed only \$250 in medical expenses this year.

6. The Phone Records indicate that Martin Albert spent 4,000 minutes (14 percent of his time) on outgoing long-distance calls. Additionally, Nicole Gedenfield is no longer employed by the company (she is not on the current payroll file) and is billing approximately \$1,000 per year in long-distance calls to the company.

As a further extension of the assignment, we also discuss the data manipulation that is necessary to compare the above information. For example, the "Clean" command (in ACL) may be necessary to remove the hyphens from the social security field in the disability file in order to accurately compare it to the annual medical payments. The "Clean" command can be used to remove all letters, numbers and symbols that are not specifically allowed in the statement. The "Upper" command may be necessary to change the first and last name of the Full Disability file to all uppercase letters so that it may accurately be compared to the name file of Annual Medical Payments. Fields that appear as dates may not always be stored as dates and may require one of many ways to convert the field to the necessary format for comparing dates.

**KPMG and the University of Illinois
Business Measurement Case Development and Research Program
Case Grant Recipients
April 1999**

KPMG and the University of Illinois at Urbana–Champaign are pleased to announce case development grants under the *Business Measurement Case Development and Research Program*. During the Program’s second submission period, 24 proposals were received requesting grants totaling approximately \$822,000. Seven proposals totaling \$271,300 have been selected for funding, with an average award of \$38,760. Under the Program, case development grant recipients can apply for follow-on research grants of up to \$50,000 after case projects have been completed.

The KPMG/University of Illinois *Business Measurement Case Development and Research Program* is distinguished from other academic funding programs in three ways:

- Cases developed under the Program focus on the importance of understanding the client’s strategy and systems dynamics when performing a financial-statement audit.
- Scholars in the fields of strategy, accounting and auditing, together with practicing professionals, establish close working relationships and share knowledge and insights during case development and research projects.
- Scholars design follow-on research projects after having obtained valuable experience applying the new assurance technologies that will be subjected to critical analysis.

All proposals received during the second submission period were reviewed by each member of the *Program’s* Advisory Board: Timothy B. Bell, KPMG; William R. Kinney, Jr., University of Texas at Austin; Krishna G. Palepu, Harvard University; Katherine Schipper, University of Chicago; Ira Solomon, University of Illinois at Urbana–Champaign; and Tiffany Rasmussen, partner-in-charge of BMP deployment at KPMG’s Assurance and Advisory Services Center in Montvale, NJ. The following case proposals were selected for funding:

Researchers and Institutions	Project Title	Funding	Project Description
David Donnelly Dan Deines Jeffrey Katz Kansas State University	A Strategic-Systems Audit of a New-Generation Agribusiness Cooperative	\$40,000	A case study focusing on the role of business processes in the execution of business strategy with particular emphasis on linkages to audit risk.
Ken Trotman Roger Simnett Graham Bradley University of New South Wales	Strategic Global Alliances and Customer Profitability in the Airlines Industry	\$40,000	A case study of the impact of strategic alliances on client business and audit risk profiles in the airline industry.
Terry Amburgey Robert Dahlstrom Robert Ramsay University of Kentucky James Duncan Ball State University	Strategic Systems Auditing in the Restaurant Industry: Using the Business Measurement Process	\$40,000	A case study focusing on the use of KPIs in analytical procedures for audits of organizations in the highly competitive restaurant industry.

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Researchers and Institutions	Project Title	Funding	Project Description
Thomas Cottrell Michael Stein University of Calgary	Revenue and Asset Measurement in the Software Industry	\$40,000	A case study illustrating the relationship between business and audit risk in the context of software revenue recognition.
Robert Allen Barry Cushing University of Utah Taylor Randall University of Pennsylvania	Understanding Business Risks and Business Processes in the Financial Services Industry	\$31,500	A case study focusing on the links among client business risks, business process performance and audit risk for a commercial bank.
Byron Bissell William L. Felix University of Arizona Audrey Gramling Wake Forest University Mario Maletta Northeastern University	Integrating Internal and External Audit Activities in a Strategic-Systems Audit: A Prescriptive Analysis	\$40,000	A case study illustrating how internal audit activities and the knowledge, skills and abilities of internal auditors can be leveraged in a strategic-systems audit.
Arnold Wright Boston College Sally Wright University of Massachusetts- Boston Mark Gordon CMI Vantage Partners LLC	Auditor-Client Negotiations Within Strategic-Systems Audits	\$39,800	A case study focusing on the relationship between knowledge of the client's business and industry and the auditor's ability to successfully negotiate the booking of audit differences.

CALLS FOR NOMINATIONS

Distinguished Service Award in Auditing

The Committee responsible for the Distinguished Service in Auditing Award is seeking nominations from the Section's membership for the award to be given at the Midyear Meeting in January 2000. This award is given periodically and recognizes outstanding and sustained service to the academic auditing profession. The illustrious careers of past recipients of the award, including Bob Roussey, Dave Landsittel, Jerry Sullivan, Don Leslie, Ken Stringer, Robert Mautz, Robert Elliott, W. W. Cooper, Jim Loebbecke, John Willingham, Jay Smith, William Kinney, Fred Neumann and Bob Sack, represent the type of contribution to the profession that exemplifies this recognition. Suggestions should be sent to Jerry Sullivan, Public Oversight Board, One Station Place, Stamford, CT 06902 (fax: [203] 353-5311; email: YAJ@worldnet.att.net) by July 1, 1999.

Outstanding Auditing Educator Award

The Committee responsible for the Outstanding Auditing Educator Award is seeking nominations from the Section's membership for the award to be given at the Midyear Meeting in January 2000. The award is given in recognition of outstanding contributions to the field of auditing education. Prior recipients of this award include Andy Bailey, Ira Solomon, William Kinney, Jack Krogstad, Glen Berryman, Fred Neumann, Howard Stettler, William Felix, Al Arens and Jim Loebbecke. Nominations should be sent to Timothy B. Bell, KPMG LLP, Three Chestnut Ridge Road, Montvale, NJ 07645 (fax: [201] 505-6210, email: tbell@kpmg.com) by July 1, 1999.

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