



THE AUDITOR'S REPORT

Volume 22, No.2, Winter 1999

AUDITING SECTION/AMERICAN ACCOUNTING ASSOCIATION

REPORT OF THE PRESIDENT

On every important dimension, the 1999 Midyear Meeting of the Auditing Section was a huge success. Two hundred twenty-seven participants attended the meeting, which exceeds the next highest attendance for any past meeting by about 40 participants. The CPE session held at the meeting was over-subscribed, was standing room only, and we had approximately 40 people on a waiting list. The core program had a well-balanced mix of topical sessions: six on psychology-based research; six on economics-based research; two on modeling research; and one on education research. The meeting's success is attributable to the diligent efforts of the 1999 Midyear Meeting Program Chair, Stan Biggs, and his program committee, and to Bill Dilla, our CPE Director, and his committee. On behalf of the Section members, I would like to thank Stan, Bill and their committee members for jobs very well done.



Timothy B. Bell

be refined on an ongoing basis to improve the effectiveness of our performance measurement.

The distinctive competencies of the Section center on the processes it has in place to foster the connections of people to people and people to ideas. The primary processes are those we execute to deliver the Midyear Meeting, the Annual Meeting luncheon and paper sessions, and other mechanisms (e.g., our web site) and events that bring people together to share ideas about teaching, research and practice developments. Also, processes that develop and deliver the Section's newsletter, our journal *Auditing: A Journal of Practice & Theory*, Section-sponsored monographs, and other authorings serve to connect scholars and educators to new knowledge and ideas.

During the strategic planning session, the Executive Committee discussed how best to proceed with a key strategic initiative that would build on our distinctive

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Progress on the Section's Strategic Management Framework

The Section's Executive Committee held a half-day strategic planning session at this year's Midyear Meeting in Atlanta. During the meeting, the Committee reviewed feedback received from members on elements of our new strategic management framework that had been posted to the Section's web site for membership review during Fall 1998. The Committee made some minor modifications to the framework in response to the feedback. Also, the Committee adopted a preliminary set of success measures that, when implemented, will help us track how well the Section and its committees are performing on the distinctive competencies that serve as the foundation for our Section's strategy. During the coming months, the new strategic management framework—which includes the Section's mission statement, our members' shared values, our distinctive competencies, and our ongoing activities and initiatives—will be posted to the Section's web site. Also, the success measures will be implemented, used by the Executive Committee to track Section and Committee performance and make adjustments where necessary, and will

SUMMER ISSUE DEADLINE

The deadline for material to be included in the Summer 1999 issue of *The Auditor's Report* is May 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
College of Business Administration, 260
Department of Accounting
University of Texas at El Paso
El Paso, TX 79968-0542
Phone: (915) 747-7742
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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)

competencies—an OutReach Task Force whose charge would be to develop and implement new strategies for how the Section can better foster active engagement between our academic members and members of the practice and regulatory communities. Although we have not yet made a final decision about whether to move forward with the Task Force, our deliberations on the issue produced one possible OutReach strategy. The committee decided to investigate whether it is feasible to convene one or more facilitated working sessions that would actively engage academics, practitioners and members of the profession's regulatory bodies to jointly develop research strategies and preliminary action plans for one or more timely and critical professional issues. Unlike past approaches where practitioners and regulators disseminate lists of research topics and very general calls for research on specific issues, this OutReach model would aim to actively engage academics in the development of research strategies and proposed research-project action plans.

During this period of flux, in which technological advances and changes in organizational forms and structures are motivating the profession to transform fundamental assurance concepts to better serve the changing needs of capital suppliers and business organizations, the Auditing Section has an opportunity to significantly and positively influence the evolution of assurance services through timely contributions of scholarly thought and research. More active participation by the academic community in the transformation of assurance services would serve to foster excellence in teaching, research and practice. For example, by becoming integrated players in the profession's transformation, educators and scholars can more quickly adapt course content, business school curricula, and research agendas. This particular OutReach strategy, if it proves feasible, has the potential to position the Auditing Section to more effectively carry out its mission. During the coming months, Jerry Sullivan, our Vice President—Practice, Karen Pincus, our Vice President—Academic, and I will be working together to assess the feasibility of this particular OutReach strategy.

On behalf of the Section, I would like to thank Mike Moore, retired partner from Ernst & Young, and the Ernst & Young firm, for their participation in and support of the Section's strategic planning initiatives over the past two years. The Executive Committee and the Section as a whole have benefited greatly from this support.

Luncheon Speaker at the AAA Annual Meeting in San Diego

I invite each of 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 Professor in the Department of Electrical Engineering at the University of Illinois at Urbana-Champaign; in the Departments of Computer Sci-

ence 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, Dr. 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 the University of Illinois at Urbana-Champaign 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.

Other Announcements and Activities

I would like to report on three other noteworthy Auditing Section activities.

- Arnie Wright, the Arthur Andersen Professor of Accounting at Boston College, has graciously agreed to serve as the next Editor of *Auditing: A Journal of Practice & Theory*. Arnie's continuing significant service to the Section is commendable. On behalf of all of our members, I would like to thank Arnie for agreeing to serve the Section in this new capacity.
- Beginning with the Section's 2000 Midyear Meeting, we will hold an awards luncheon at which each of the Section's awards will be presented. No Section awards will be presented during the 1999 Annual Meeting luncheon, thereby allowing more time for the luncheon speaker and for recognition of outgoing officers.
- The 2000 Midyear Meeting of the Auditing Section will be held on January 13th through 15th at the Newport Beach Marriott Hotel in Newport Beach, California.

Again, thank you for allowing me the opportunity to serve as your president.

Timothy B. Bell
President 1998-1999

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 during 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 Meeting 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, in order 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

CALL FOR PAPERS

TWELFTH ANNUAL

IIA EDUCATION AND TRAINING COLLOQUIUM

Papers are now being accepted from practitioners and educators for consideration for The IIA's Twelfth Annual Education and Training Colloquium. The Colloquium will be held from 8:00AM to 5:00PM on Sunday, June 20, 1999, immediately preceding The IIA's 58th International Conference, in Montreal, Canada.

The program will feature roundtable presentations of 30 minutes on internal auditing training and education articles. Articles coauthored by an academic and practitioner are especially desired. Topics normally addressed in papers include: (1) the training or education of internal auditors, (2) internal auditing in general, and (3) auditing in general.

Papers will be double-blind reviewed by a committee of reviewers chaired by Dr. Thomas A. Gavin, University of Tennessee at Chattanooga, and Dr. Douglas E. Ziegenfuss, Old Dominion University. Selected papers will be considered for publication in either *The Managerial Auditing Journal* or *Internal Auditing*. Paper presenters will attend the Colloquium at no cost and will be able to attend the International Conference at a reduced rate.

Papers should be submitted by March 15, 1999 to Candy Murray; Manager, Academic Relations; The Institute of Internal Auditors; 249 Maitland Avenue; Altamonte Springs, FL 32701-4201.

Questions concerning the Colloquium should be directed to:

Dr. Thomas A. Gavin
Department of Accounting
School of Business
University of Tennessee at Chattanooga
Chattanooga, TN 37401
Phone: (423) 755-4638
Email: tomgavin@chattanooga.net

Dr. Douglas E. Ziegenfuss
Department of Accounting
Old Dominion University
Norfolk, VA 23529-0229
Phone: (757) 683-3514
Email: dziegenf@odu.edu

AICPA International Auditing Standards Subcommittee

Member, International Auditing Standards Committee

William F. Messier, Jr., D.B.A., CPA

Deloitte & Touche Professor

Georgia State University

In December 1997, the Auditing Standards Board (ASB) issued a document titled *Horizons for the Auditing Standards Board: Strategic Initiatives Toward the Twenty-First Century*. One of the four initiatives included was to “significantly strengthen the ASB’s leadership role in developing international auditing standards and quality control processes that meet the needs of a global marketplace.” The motivation for this initiative can be traced to the International Organization of Securities Commissioners (IOSCO), including the Securities and Exchange Commission (SEC), consideration to accept financial reports prepared in accordance with accounting standards established by the International Accounting Standards Committee, and the International Auditing Practices Committee (IAPC) seeking IOSCO approval of its international auditing standards for use in cross-border filings. The ASB believes that it is important to have a proactive and leadership role in setting international auditing standards.

The ASB established the International Auditing Standards Subcommittee (IAS Subcommittee) to: support the AICPA’s International Strategy Committee; help the ASB and other AICPA committees to develop and implement AICPA international strategies; participate in international standards-setting projects; identify international issues affecting auditing and attestation standards and practices. The IAS Subcommittee held its initial meeting in April 1998, and subsequent committee meetings in May 1998 and October 1998. One of the IAS Subcommittee’s major roles is responding to IAPC’s discussion documents or exposure drafts for International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPs). IAPC has a number of projects-in-process that are being addressed by the IAS Subcommittee.

Assurance Services¹

In August 1997, IAPC issued an exposure draft of a proposed framework and international standard on reporting on the credibility of information. The framework

and principles were to provide guidance to auditors on assurance-related services. Based on the comments, and discussion at IAPC’s October 1998 meeting, the original document has been combined into one International Standard on Assurance Services. This standard will be exposed again for further comments.

Communications to Those Charged With Governance

This proposed ISA was issued in August 1998 with a response due date of November 30, 1998. The proposed standard establishes standards and provides guidance on communications arising from the audit of financial statements to those charged with governance of an entity. The IAS Subcommittee has commented on this exposure draft.

Going Concern

An exposure draft of a proposed ISA is currently outstanding. Two issues in the exposure draft appear to be at odds with U.S. standards (SAS No. 59) and are a matter of contention for some IAPC members: the length of the going-concern assessment period and the auditor’s responsibility for a period beyond the assessment period. The exposure draft states that the auditor has a responsibility to consider the same period assessed by management, which is at least, but not limited to, one year from the date of balance sheet. Some parties believe that the assessment period should be one year from the date of the auditor’s report. The exposure draft also states that the auditor has a responsibility to “remain alert” (not well defined) for conditions or events that may occur beyond the assessment period. The IAS Subcommittee has presented comments raising concerns about these two issues.

External Confirmations

In November 1998, an exposure draft on “External Confirmations” was issued with a response due date of March 31, 1999. This exposure draft is reasonably consistent with SAS No. 67 with one significant exception: it eliminates the presumption that trade accounts receivable will be confirmed. An earlier version of this document also failed to include such a presumption and the Subcommittee commented to IAPC on that issue. The Subcommittee will comment on the revised exposure draft.

Fraud

IAPC added a project titled “Consideration of Fraud in a Financial Statement Audit” to its agenda and prepared a discussion document. The discussion document cites four reasons for revising IAPC’s extant standard (ISA 240—Fraud and Error): (1) fraud continues to be a problem for businesses, (2) there is a concern that the expectations gap is widening, (3) the auditor’s responsibility to detect and communicate fraud is frequently questioned in legal cases, and (4) other countries have issued detailed standards in this area. The discussion document specifically addresses the expectations gap, the auditor’s responsibility for fraud, and auditor performance. It also contains a high-level comparison of ISA 240 with SAS No. 82 and the U.K.’s APB No. 110. The IAS Subcommittee has discussed the document and provided its input to the IAPC via the U.S. representative (Robert Roussey, University of Southern California) and technical advisors (Thomas Ray, AICPA; and John Archambault, Grant Thornton).

SASs vs. ISAs

The IAS Subcommittee has undertaken a project to compare U.S. auditing standards to International Standards on Auditing. At this point, the comparison has been a high-level analysis of situations where IAPC guidance parallels the guidance in an SAS, and where there exists no IAPC guidance comparable to U.S. standards. At its October 1998 meeting, the Subcommittee decided that it would limit the comparison to an update to the appendix in the Codification. Professor Kay Tatum (University of Miami) has volunteered to complete the update.

Summary

With the globalization of business and the increase in cross-border financing, there is a need to have harmonization of accounting and auditing standards. The ASB and IAS Subcommittee are taking an active role in providing input for the establishment of international auditing standards. Anyone requesting additional information on the Subcommittee’s activities can contact the author at accwfm@langate.gsu.edu.

¹ The IFAC’s homepage (www.ifac.org) contains downloadable copies of the recent exposure drafts.

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. Nominations should be sent by July 1, 1999 to Jerry Sullivan, Public Oversight Board, One Station Place, Stamford, CT 06902; Fax: (203) 353-5311; Email: YAJ@worldnet.att.net.

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 by July 1, 1999 to Timothy B. Bell, KPMG LLP, Three Chestnut Ridge Road, Montvale, NJ 07645; Fax: (201) 505-6210; Email: tbell@kpmg.com.

AUDITING: A JOURNAL OF PRACTICE & THEORY

William L. Felix, Jr., Editor
December 31, 1998

	<u>7/1/96-12/31/97</u>			<u>1/1/98-12/31/98</u>		
Manuscript Flow						
Submissions						
New			123 (81%)			66 (65%)
Resubmissions			29 (19%)			35 (35%)
Available for decision			152			101
Decisions made			129			63
Out for review or awaiting decision			23			38
Acceptance Rates						
Accepted for publication			10 (8%)			20 (32%)
Returned for revision			37 (29%)			13 (21%)
Rejected			82 (63%)			30 (47%)
Reviewing Time						
	<u>Mean</u>	<u>Median</u>	<u>Std.Dev.</u>	<u>Mean</u>	<u>Median</u>	<u>Std.Dev.</u>
Number of days for reviewers to respond	56	50	28	57	50	30

The above report describes the manuscript flow, time-to-review, and decision making for *AJPT* for the periods July 1, 1996 through December 31, 1997 and January 1, 1998 through December 31, 1998. During this period, two issues of the journal were submitted to the AAA office for publication as the Fall 1998 and Spring 1999 issues.

The total of 66 new submissions compares to 83 for the prior year. The average time to an initial decision of 100 days during this period compares to approximately 87 days for the prior year. The 20 manuscripts selected for publication includes nine that have been tentatively selected for the Fall 1999 issue. While it is difficult to be precise about acceptance rates, it is my belief that the average rate is about 15 percent. This year's 32 percent acceptance rate is, of course, much higher than last year's 8 percent, but it includes several papers that took several revisions to reach a publishable condition.

“The Poetry of Accountability”

The 5th Critical Perspectives on Accounting Conference

“Ethical Dimensions of Accounting Change”

Baruch College, City University of New York
April 22–24, 1999

The conference will include a special segment, cosponsored by *Critical Perspectives on Accounting* and the *Accounting, Auditing and Accountability Journal*, featuring creative work—poetry, prose poems and short fiction—that is broadly related to the general theme of the conference, “Ethical Dimensions of Accounting Change.”

The conference seeks original contributions in this area, from participants who might wish to read their work, or from others who might wish to have their work read at the conference. The conference is interested in receiving submissions which offer new critical and analytical perspectives on commerce, money and the accounting profession, and which illustrate the power of imaginative writing to provoke alternative “ways of seeing.” It seeks submissions that probe parallels and conflicts between fictional and professional forms of reality construction, and which explore and expose the fictions that underwrite our vision of reality. Above all, it seeks submissions that, in the time-honored Horatian phrase, “instruct by pleasing.”

Interested participants in “The Poetry of Accountability” should contact:

Associate Professor Michael Meehan
School of English and Drama
Flinders University
Bedford Park 5042
AUSTRALIA
Phone: 61 82012217
Fax: 61 82012556
Email: Michael.Meehan@flinders.edu.au

To enroll in the conference, contact:

Professor Tony Tinker
Box E-0723
Baruch College–CUNY
17 Lexington Avenue
New York, NY 10010
Phone: (212) 802-6436
Fax: (212) 802-6423
Email: tonytinker@email.msn.com

Call for Nominations

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

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

An outstanding dissertation can be expected to rate highly with respect to all of these criteria. Selection of the award winner will be made by the Section’s Outstanding Dissertation in Auditing Committee.

A dissertation must be nominated by either the person who authored it or one or more members of the dissertation committee. Nominations will be considered to be complete when the following materials have been submitted:

- a letter from the dissertation chairperson stating that a dissertation has been completed and accepted by the degree-granting institution between January 1, 1997 and December 31, 1998 (dissertations can be nominated more than once);
- five copies of a nomination letter stating why the dissertation is deserving of special recognition; and
- five copies of a paper from the dissertation that meet the criteria for papers submitted to *Auditing: A Journal of Practice & Theory* (refer to the latest issue for requirements related to length and other matters, e.g. submission of questionnaires and experimental instruments).

Please send all materials to:

Professor Karen V. Pincus
Department of Accounting
College of Business
University of Arkansas
Fayetteville, AR 72701

Entries must be received by May 1, 1999. The award recipient will be notified by September 1, 1999, and will receive the award during the Midyear Auditing Section meeting in January 2000.

Call for Papers

1999 ABO Research Conference

October 8–9, 1999

The Accounting, Behavior and Organizations Section of the American Accounting Association invites you to participate in the 1999 ABO Research Conference. The Conference will be held Friday and Saturday, October 8–9, 1999 in an attractive location in the greater Los Angeles area. Papers in all areas of behavioral accounting will be considered, and diverse methodologies are encouraged. The submission deadline is March 31, 1999.

Aside from the presentation and discussion of papers, the conference intends to present some overviews of recent developments in the field, as well as to encourage an open exchange of experiences and views. Toward this end, a number of plenary and special sessions will be arranged.

Final registration details will be available later in the year in the *Accounting Education News* and on the AAA and ABO web sites. Addresses are: <<http://www.rutgers.edu/Accounting/raw/aaa>> and <<http://hsb.baylor.edu/html/davisc/abo/home.htm>>

Submission Guidelines

1. The paper must be complete. The submission should include the abstract and supporting documents, e.g., questionnaires and experimental instruments.
2. Papers should not have been published prior to the conference date.
3. Submitted papers should follow the format guidelines of the journal of the author's choice.
4. The cover page should include the following information: full names of authors, positions and affiliations, complete addresses, telephone and fax numbers, and email addresses.
5. Four copies of the paper and a self-addressed stamped postcard with the title of the paper on it should be sent to:

Professor Chee Chow
School of Accountancy
San Diego State University
San Diego, CA 92182-8221

6. A submission fee of \$50, payable to AAA/ABO, must be included.
7. Submission to the conference does not automatically constitute submission to any journal. However, if you wish the paper to be submitted simultaneously to *Behavioral Research in Accounting*, please indicate this. The paper will be forwarded to *BRIA* and the journal submission fee will be waived.
8. Notification of paper selection for the conference will be made no later than May 15, 1999.
9. Please indicate in the submission letter whether you are interested in presenting the paper in a research forum setting or only in a concurrent session.

Special Session: Bring an Issue

Do you have concerns about behavioral accounting research that you believe should be brought forward for general discussion? Is it becoming more difficult to find appropriate subjects for experiments? Are there ethics-related confidentiality problems of which researchers should be aware in conducting behavioral studies in the field? Can experiments conducted on the Internet be adequately controlled?

If you would like to actively share your concern(s) in this special session, please submit a one-page description of your concern(s) (three copies, no submission fee) to Chee Chow by March 31, 1999. A number of these issues will be selected for brief presentations at the conference, with the intention of stimulating discussion and exchange of potential solutions to problems facing behavioral researchers today.

Academy of Accounting Historians

Call for Papers

The 1999 Annual Conference for the Academy of Accounting Historians will be held in Toronto, Ontario, Canada from November 18 to 20 at the Westin Harbour Castle Hotel. The conference theme is "The Rhetoric of Accounting History: Conversations Across Time and Space?" According to past practices, most accounting history topics are acceptable. The 1999 conference will place, as the theme implies, emphasis on critical analysis. Researchers from related areas who use historical accounting data are encouraged to participate. For the first time, some sessions will be dedicated to the presentation of cases and papers dealing with the use of historical accounting cases for teaching.

The daily hotel room rate is CAN\$135. (US\$88 using an exchange rate of 0.65) single/double occupancy, CAN\$145 (US\$94) triple, and CAN\$155 (US\$101) quad. These rates also apply one

day prior to and one day after the conference. The registration fee is CAN\$125 or US\$85, or student CAN\$25 or US\$20, which includes: reception on Thursday night (November 18); continental breakfast, lunch, and dinner on Friday (November 19); continental breakfast and lunch on Saturday (November 20); and a copy of the *Conference Proceedings*.

All papers will be double-blind reviewed. The deadline for submission is June 15, 1999. The results of the reviews will be provided to authors by September 1. For information, registration form, or to submit a paper, please contact Professor Gary Spraakman, Program Committee Chair, 1999 AAH Research Conference, Atkinson College, York University, Toronto, Ontario, M3J 1P3, CANADA; Phone: (416) 736-5210; Fax: (416) 736-5963; Email: GaryS@YorkU.ca.

ASB Update as of December 31, 1998

Kurt Pany, Arizona State University
Academic Member of the Auditing Standards Board

In this update, I summarize the ASB pronouncements approved for issuance during the year ending December 31, 1998, and highlight various projects still in progress. As always, feel free to contact me with any questions and comments.

1998 PRONOUNCEMENTS

SAS No. 86—Amendment to SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties*

SAS No. 86 amends portions of SAS No. 72, *Letters for Underwriters*, to reflect SSAE No. 8 (see below).

SAS No. 87—*Restricting the Use of an Auditor's Report*

This SAS provides guidance to help auditors determine whether an engagement requires a restricted-use report and, if so, what elements to include in that report. A restricted-use report is one that is intended only for specified parties. The need for restriction on the use of report may result when:

- The subject matter of the auditor's report or the presentation being reported on is based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are *not* in accordance with generally accepted accounting principles (or an other comprehensive basis of accounting).
- The accountant's report is based on procedures specifically designed and performed to satisfy the needs of specified parties who accept responsibility for the sufficiency of the procedures (e.g., agreed-upon procedures engagements).
- The auditor's report is issued as a by-product of a financial statement audit and is based on the results of procedures designed to enable the auditor to express an opinion on the financial statements taken as a whole, not to provide assurance on the specific subject matter of the report (e.g., SAS No. 60 [AU 325] on the communication of internal control-related matters noted in an audit).

Although a report's use must be restricted in the circumstances described above, SAS No. 87 indicates that an auditor may restrict other reports, including those that are ordinarily general-use reports.

SSAE No. 8—*Management's Discussion and Analysis*

This lengthy SSAE outlines approaches for examinations and reviews of MD&A. The SSAE provides guidance to assist the CPA in:

- Accepting an engagement
- Planning the engagement
- Considering internal control applicable to the preparation of MD&A
- Obtaining sufficient evidence for an examination

- Applying analytical procedures and inquiries for a review
- Considering events subsequent to the balance-sheet date
- Reporting

SSAE No. 9—*Attestation Recodification*

This SSAE:

- Enables the CPA to report directly on a specified subject matter, such as internal control or on management's assertion about internal control. For example, the CPA could now express a conclusion about internal control in part as:

In our opinion, Brody Company maintained effective internal control over financial reporting as of December 31, 19XX, based upon criteria established in [identify criteria].

Alternatively, the CPA could continue to report on management's assertion about internal control in part as:

In our opinion, management's assertion that Brody Company maintained effective internal control over financial reporting as of December 31, 19XX is fairly stated, in all material respects, based upon criteria established in [identify criteria].

- Eliminates the requirement for a separate presentation of management's assertion in certain cases where the assertion is included in the introductory paragraph of the CPA's report.
- Aligns attestation-reporting language with that included in SAS No. 58, *Reports on Audited Financial Statements*.
- Provides guidance on the relationship between the Attestation Standards and the Quality Control Standards.

OTHER PROJECTS

Attestable Criteria Task Force

The objective of this task force is to improve and clarify the guidance on what constitutes acceptable "measurement criteria" (the GAAP for financial statement audits) for new engagements crafted under the attestation standards. The task force also will develop implementation guidance to help CPAs establish criteria for attestation engagements.

Attestation Recodification II Task Force

This task force is examining the SSAEs to improve their understandability and utility. The task force also will develop nonauthoritative guidance to help practitioners determine whether engagements are subject to the attestation standards, the consulting standards, or the auditing standards.

(Continued on page 9)

ASB Update (Continued from page 8)

Electronic Dissemination of Audited Financial Information Task Force

This task force is considering issues concerning the electronic dissemination of audited financial statements, related auditors' reports, and other information on which an accountant has reported. The task force is considering issues including:

- Whether an accountant has an obligation to determine if his or her report and the information to which it relates will be electronically disseminated.
- The accountant's responsibility for the electronic version of information attested to and other information that might be associated with that information.

Financial Instruments Task Force

The task force is considering the auditor's responsibility for auditing financial statement assertions for financial instruments. The task force has prepared a draft of a proposed SAS that pro-

vides a framework for auditing all financial instruments. The proposed SAS will provide guidance on how an auditor obtains a sufficient understanding of an entity's internal control for situations in which a separate organization, such as a custodian, broker dealer, or bank trust department serves as part of an entity's information system as it relates to the entity's financial statements.

Year 2000 Issue

The ASB has been involved with a number of aspects of the Year 2000 Issue, and auditor responsibility with respect to it. The AICPA web site (www.aicpa.org) includes various advice and positions relating to this responsibility.

FINAL COMMENT

As of December 31, 1998 I have rotated off the ASB. It is my hope that AAA Audit Section members will provide Ray Whittington (DePaul University), my replacement, with excellent support throughout his term.

**1999 Midyear Meeting
American Accounting Association—Auditing Section
Statement of Cash Receipts, Disbursements, and Cash Balance (Note 1)**

	FY 98 9/1/97–8/31/98 (ACTUAL)	FY 97 9/1/96–8/31/97 (ACTUAL)
RECEIPTS:		
Membership Dues (Note 2)	\$ 24,236.50	\$ 23,438.50
Journal Subscriptions	13,450.00	12,362.25
Sales of Publications/Royalties (Note 3)	12,497.43	1,413.36
Journal Submission Fees (Note 4)	2,825.00	4,515.00
CPE (net) (Note 5)	770.77	2,401.09
Reimbursements (Note 6)	21,222.42	7,295.42
Midyear Meeting Registration	17,410.00	16,620.00
Miscellaneous Receipts	–	5.75
TOTAL RECEIPTS	\$ 92,412.12	\$ 68,051.37
DISBURSEMENTS:		
Awards	\$ 711.55	\$ 1,033.09
A:AJPT—Printing / Distribution (Note 7)	24,416.75	16,958.93
A:AJPT—Editorial Support	15,000.00	15,000.00
Newsletter: <i>The Auditor's Report</i> (Note 8)	3,042.03	6,928.82
Midyear Meeting (Note 9)	29,193.10	23,880.92
Meeting Rooms—Annual Meeting (Note 10)	964.96	332.13
Committee Travel (Note 11)	674.29	–
Miscellaneous Expenses (Note 12)	1,539.71	1,263.24
TOTAL DISBURSEMENTS	\$ 75,542.39	\$ 65,397.13
Cash Increase (Decrease)	\$ 16,869.73	\$ 2,654.24
Beginning Cash Balance	52,203.55	49,549.31
Ending Cash Balance	69,073.28	52,203.55

(Continued on page 13)

CALL FOR PAPERS

International Journal of Applied Quality Management

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Srikant M. Datar, Harvard University
Roger J. Calantone, Michigan State University

The principal goal of the proposed *International Journal of Applied Quality Management* is to be an interdisciplinary journal of interest to academicians, practitioners, business decision makers and other policy makers. The scope of the journal will be to cover various aspects of applied quality management decision making, including, but not limited to, such topics as activity-based costing and management, total quality control and management, just-in-time systems, theory of constraints, process re-engineering, behavioral and organizational systems, and performance measurement.

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
- 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
- Five copies of the work

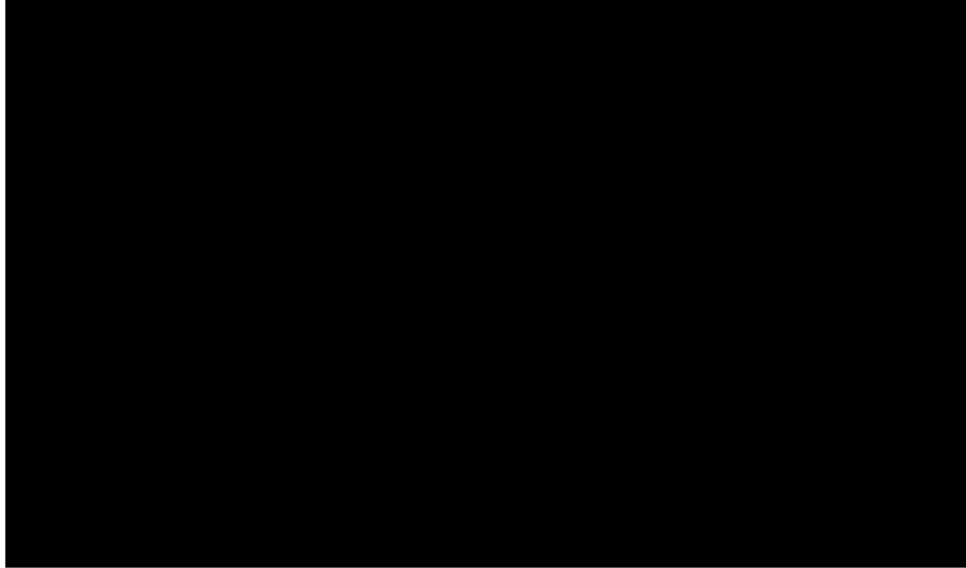
Please send all materials to:

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.

FIFTH ANNUAL MIDYEAR AUDITING SECTION MEETING

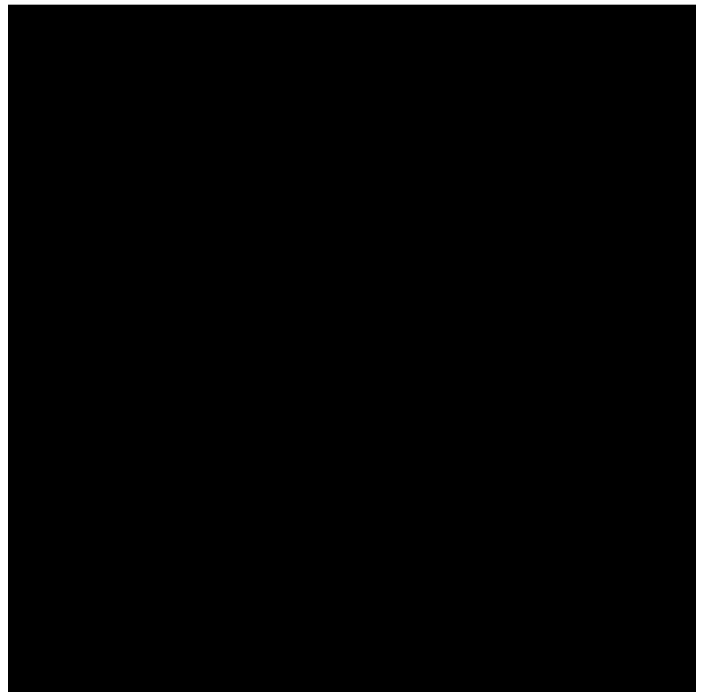
The Auditing Section held its Midyear Meeting January 14–16, in Atlanta, Georgia. The new attendance record of 227 attendees and the tremendous level of interest in the CPE session both serve to demonstrate the success of the meeting. Special thanks go to KPMG for its continuing sponsorship of the Midyear Meeting, and to the Program Committee: Stan Biggs, Chair (University of Connecticut), Arnie Wright (Boston College), Bill Messier (Georgia State University), Bill Dilla (Iowa State University), and Jane Kennedy (University of Washington).



(left to right) Linda McDaniel, University of North Carolina, Karen Pincus, University of Arkansas, and Jean Bedard, Northeastern University, enjoy the refreshments.



Michael Novak of the American Enterprise Institute, speaking at a plenary session. The topic of his talk, “Ethics Today: Implications for Business and Auditing.”



Michael Gibbins, University of Alberta, discussing “Cognitive Research.”

Internal Control Documentation: Which Format is Preferred?

by James Lloyd Bierstaker

Assistant Professor, University of Massachusetts Boston

INTRODUCTION

Internal control is receiving increased attention in public accounting. In response to the increase of management fraud and related control deficiencies, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released a report that defines internal control and sets standards for evaluating internal control effectiveness (COSO 1992). SAS No. 78 incorporates the COSO framework and requires that, on every engagement, auditors obtain a “sufficient understanding of internal control” to plan the audit and determine the nature, timing and extent of audit testing (AICPA 1995). Auditors must also document their understanding of internal control. However, there is no specific guidance as to the type or number of formats that should be used for documentation.

The purpose of this study is to investigate which documentation formats auditors commonly use, the number of formats used, and if certain formats are preferred. The results of this study may serve as a baseline for auditors who are considering which, and how many, formats to use for documenting their understanding of internal control. The results may also be of interest to accounting students and faculty who wish to learn more about which formats are used most often by auditors.

The choice of documentation format is an important issue because each format imposes a different structure on the data collection process, which may affect auditors’ internal control evaluations and their assessments of control risk (Carscallen 1982; Mock and Willingham 1983). Formats that have been used by auditors in the past to document their understanding of internal control include the narrative, questionnaire, matrix and flowchart (Mock and Turner 1981; Cushing and Loebbecke 1986). However, recent evidence suggests that the use of certain formats may be on the decline. For example, interviews with members, ranging in rank from the senior to partner level, of several Big 5 firms indicate that while flowcharting is still “suggested” by many audit manuals, it may be rarely used in practice. Formats such as flowcharts may be used less often by auditors because they are relatively costly and time-consuming to prepare. In contrast, formats such as narratives may be prepared more quickly and easily.

In addition, given the current competitive audit environment and the emphasis placed on efficiency, auditors may choose to rely on one format to minimize internal control documentation costs. If more than one format is used, many pieces of information could be recorded twice because there is a substantial overlap of information between formats. However, if a single format is used, significant internal control deficiencies may be overlooked, especially if they are not specifically addressed by that format (Purvis 1989). For example, the overview of control activities provided by a flowchart may lend itself to the evaluation of segregation of duties. If another format is used to evaluate internal control, an important weakness related to segregation of duties could be missed.

METHODS AND PARTICIPANTS

Questionnaire data was collected from 92 auditors to investigate if certain internal control documentation formats are preferred, and the number of documentation formats that auditors commonly use. The auditors who participated in this study had an average of 41.7 months of public accounting experience, and had been responsible for preparing internal control documentation for an average of 20.2 months.

RESULTS

Auditors were asked to indicate any and all formats that they commonly use to document and evaluate internal control. Approximately 88 percent of the auditors reported using narratives, 60 percent reported using questionnaires, 46 percent reported using flowcharts, and 37 percent reported using an internal control matrix. In addition, 8 percent reported that they commonly use some other method for documenting and evaluating internal control including: best practices (3 percent), walkthroughs (1 percent), box diagrams (1 percent), firm software (1 percent), industry-specific questionnaires (1 percent), and benchmarking (1 percent).

Results were also analyzed based on the number of formats that auditors indicated they commonly use. This analysis focused on narratives, questionnaires, flowcharts and matrices because other formats were rarely used. Most of the auditors indicated that they commonly use either two (45 percent) or three formats (33 percent) to document internal control. Only 11 percent indicated that they rely on a single format, and 8 percent indicated that they use all four formats. (Numbers total less than 100 percent due to rounding error.) The combination of formats mentioned most often was questionnaires and narratives (26 percent), followed by questionnaires, flowcharts and narratives (12 percent), questionnaires, matrices and narratives (11 percent), flowcharts, matrices and narratives (10 percent), and flowcharts and narratives (10 percent). Narratives were the most popular single format used to document internal control (8 percent). Interestingly, none of the auditors indicated that they used only questionnaires to document their understanding of internal control, suggesting that questionnaires are used primarily to gather data, which is then input into another internal control documentation format such as a narrative. Narratives and questionnaires may work well together because questionnaires are highly structured, whereas the structure of the narrative depends on the auditor. It is also interesting to note that the majority of auditors who use flowcharts also use narratives, which suggests that the graphic format of the flowchart may be easier to interpret when it is used in combination with the textual format of a narrative.

CONCLUSION

The results of this study suggest that narratives are the most popular format for documenting internal control, followed by questionnaires,

(Continued on page 13)

Internal Control (Continued from page 12)

flowcharts and matrices. Narratives and questionnaires may be preferred by auditors because they are relatively easy to prepare, as compared to flowcharts or matrices. The results also suggest that auditors often use two or three formats to document internal control. In particular, about one-fourth of the auditors participating in this study indicated that they used a combination of narratives and questionnaires. Thus, most auditors did not appear to

rely exclusively on a single format to document internal control. While reliance on a single format could minimize training costs and enhance audit efficiency, using multiple formats may help to ensure that important internal control weaknesses are not overlooked. The use of two or three formats may represent a strategy that preserves audit effectiveness without sacrificing audit efficiency.

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1999 Midyear Meeting (Continued from page 9)

American Accounting Association—Auditing Section Statement of Cash Receipts, Disbursements, and Cash Balances (Note 1) For the Year Ended August 31, 1998

Notes

1. The Statement of Cash Receipts, Disbursements, and Cash Balances was compiled from the monthly financial reports received from the national office of the American Accounting Association.
2. As of August 31, 1998, there were 1,269 U.S. members and 423 foreign members; 1,544 were full members and 148 were associate members. As of August 31, 1997, there were 1,264 U.S. members and 440 foreign members; 1,561 were full members and 143 were associate members.
3. The increase from FYE 97 to FYE 98 is due to a large receipt from the Copyright Clearance Center for the reproduction of *A:AJPT* articles in foreign countries (primarily Australia, Canada, and the United Kingdom).
4. Per Bill Felix (Editor, *A:AJPT*) there has been a decline in submissions during the FYE 8-31-98. See the Report of the Editor for further details.
5. The decrease from FYE 97 to FYE 98 is due to the fact that no CPE sessions were sponsored by the Auditing Section at the 1998 Annual Meeting.
6. Includes: (1) contribution of \$11,609.55 from the KPMG Peat Marwick Foundation for Midyear Meeting costs, and (2) a reimbursement of \$9,612.87 from the University of Waterloo for an *A:AJPT* supplement arising from a Univ. of Waterloo audit symposium.
7. The increase from FYE 97 to FYE 98 is due to three issues of *A:AJPT* being published during FYE 98 (Spring 97, Fall 97, Spring 98) as compared to two issues during FYE 97.
8. The decrease from FYE 97 to FYE 98 is due to the partial use of electronic dissemination of *The Auditor's Report* during FYE 98.
9. The Midyear Meeting costs of \$29,193.10 included a \$4,000 advance payment to the plenary speaker for the 1999 Midyear Meeting. These costs were largely covered by: (1) meeting registration fees (\$17,410) and (2) KPMG Peat Marwick contribution (\$11,609.55). The \$173.55 shortfall—which represents printing charges for the 1999 Midyear Meeting Call for Papers—will be recovered from the KPMG Peat Marwick Foundation in 1999.
10. Represents the net of luncheon ticket revenue and luncheon expense. Last year's amount, \$332.13, has been reclassified from Miscellaneous Expense.
11. Represents reimbursements to members of the Executive Committee for incremental costs incurred in attending Executive Committee meetings.
12. This amount includes \$1,324 of postage expense.

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 or more of the following areas, please complete this form and give 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 an attached blank page for additional comments.

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

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

HAVE YOU SEEN...?

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

“The Effect of Audit Quality on Earnings Management,” by C. L. Becker, M. L. DeFond, J. Jiambalvo, and K. R. Subramanyam, *Contemporary Accounting Research* (Vol. 15, No. 1, 1998): 1–24.

This paper investigates the relationship between audit quality and earnings management. Treating audit quality as a dichotomous variable (with Big 6 auditors assumed to be higher quality than non-Big 6 auditors), the study captures discretionary accruals using a cross-sectional version of the Jones (1991) model. The authors anticipate that the effectiveness of auditing and its ability to constrain manager’s income-increasing activities vary with the quality of the auditor. Specifically, the authors predict that clients of non-Big 6 auditors will report discretionary accruals that increase income relatively more than the discretionary accruals reported by clients of Big 6 auditors. Results support the hypothesis. Clients of non-Big 6 auditors were associated with discretionary accounting accruals that were, on average, 1.5 to 2 percent of total assets higher than the discretionary accruals of clients of Big 6 auditors.

“Auditor Changes and Discretionary Accruals,” by M. L. DeFond and K. R. Subramanyam, *Journal of Accounting and Economics* (Vol. 25, 1998): 35–67.

Using a sample of auditor-change firms, this paper shows that a firm’s discretionary accruals are income-decreasing during the last year with the predecessor auditor and generally insignificant during the first year with the successor. The results also show that the income-decreasing discretionary accruals are concentrated among firms that are expected to have greater litigation risk. The findings are consistent with the idea that concerns about the risk of litigation provide incentives for auditors to prefer conservative accounting choices, and with managers dismissing incumbent auditors in the hope of finding a more reasonable successor. However, the authors are unable to rule out financial distress as a potential alternative explanation for the results.

“The Relation Between Going-Concern Opinions and the Auditor’s Loss Function,” by T. J. Louwers, *Journal of Accounting Research* (Vol. 36, No. 1): 143–155.

This paper examines whether auditor incentives influence auditors in the decision about whether to issue a going-concern disclosure to financially distressed clients. The author models the auditor’s going-concern decision as a function of the client’s financial condition and prospects, and of factors associated with the auditor’s loss function (i.e., incentive factors). Those factors are modeled to include prospective audit fees, auditor tenure, recent auditor litigation, client losses, and previously disclosed going-concern difficulties. Using a sample of over 800 financially stressed firms (1984–1991), the author does not find support for the contention that the decision to issue going concern disclosures are systematically influenced by the incentive factors analyzed in the study. Rather, only the client’s financial condition and the presence of indicators of financial distress were significant in explaining the going-concern decision.

“Independent Auditor Litigation: Recent Events and Related Research,” by C. B. Cloyd, J. R. Frederickson, and J. W. Hill, *Journal of Accounting and Public Policy* (Vol. 17, No. 2, 1998): 121–142.

This paper has several objectives. First, implications of three of the more significant litigation-related victories for public accountants are exam-

ined: *Bily v. Arthur Young & Co.*, the Private Securities Litigation Reform Act (the Reform Act), and California Proposition 211. Second, various issues related to the Reform Act are examined, including the following: (1) litigation involving CPAs since the passage of the Reform Act, (2) whether litigation costs have indeed decreased for CPAs since the passage of the Reform Act, and (3) the movement to uniform standards, which is designed to reduce the shift of litigation from federal to state courts as a result of the Reform Act. Finally, the paper reviews several recent academic studies on auditor litigation and provides many suggestions for future research. The authors conclude that the litigation problems of public accountants are far from over and that there is a significant need for additional research in this area.

“An Empirical Investigation of the Interface Between Internal and External Auditors,” by R. G. Brody, S. P. Golen, and P. M. J. Reckers, *Accounting and Business Research* (Vol. 28, No. 3, 1998): 160–171.

This study investigates the effect of internal audit department quality on external auditors’ willingness to rely on the work performed by internal auditors. The study also examines the effects on external auditor judgment of external auditors’ recent experiences with material errors and irregularities and two previously untested (in auditing research) individual differences: (1) conflict management style and (2) perception of internal/external auditor communication barriers. Hypotheses were tested based on the responses provided by 107 audit seniors from one Big 6 firm to an experimental case developed by the authors (each auditor completed one of three versions). Results suggest that external auditors do respond to internal audit department quality differences and that all three individual auditor differences examined do influence auditor judgments. The authors discuss implications for audit practice as well as provide directions for future research.

“The Calculated and the Avowed: Techniques of Discipline and Struggles over Identity in Big 6 Accounting Firms,” by M. A. Covaleski, M. W. Dirsmitz, J. B. Heian, and S. Samuel, *Administrative Science Quarterly* (Vol. 43, 1998): 293–327.

An ethnographic field study in Big 6 public accounting firms, where management by objectives and mentoring are used as techniques of control, examines how organizations transform professionals into disciplined and self-disciplining organizational members whose work goals, language and lifestyle come to reflect the imperatives of the organization. The study shows that the scope and effect of these techniques shaped the identities of organizational participants, but the discourse of professional autonomy fueled resistance to these pressures toward conformity. Implications of these results are discussed as they relate to conflict between professionals and organizations and to the critical study of organizations.

“Changes in European and Australian Companies When They Choose a ‘Big 5’ Auditor,” by W. A. Wallace, *European Management Journal* (Vol. 16, December 1998): 653–659.

Empirical profiling of 193 companies in six countries that choose to change auditors to a Big 5 firm permits managers who are responsible for such decisions to benchmark their financial context. In particular, the level of debt, returns and taxes observed when companies

(Continued on page 16)

Have You Seen...? (Continued from page 15)

change auditors to a Big 5 firm are quantified, as are the significant changes observed in size, dividends, and the operating income-to-total capital ratio. Of particular interest are reasonably consistent declines in five-year average effective interest incurred post-change.

“The Impact of Legal Liability Regimes and Differential Client Risk on Client Acceptance, Audit Pricing, and Audit Effort Decisions,” by A. A. Gramling, J. W. Schatzberg, A. D. Bailey, Jr., and H. Zhang, *The Journal of Accounting, Auditing and Finance* (Vol. 13, No. 4, 1998): 437–460.

This study employs experimental methods to examine client acceptance, audit pricing and effort decision for clients of varying risk under two legal rules, joint and several liability, and proportionate liability. The authors predict greater availability of audit services for high-risk clients, lower audit prices, and lower audit effort under proportionate liability relative to joint and several liability. The evidence does not strongly support predicted prices due to underpricing behavior, but prices do reflect risk differences across client groups for both liability regimes. The results also exhibit some support for the predictions that auditors select low effort for the lowest-risk clients, and a low effort level under proportionate liability relative to joint and several liability for moderate-risk clients. The results also indicate that, as predicted, for the highest-risk clients, high effort is selected under proportionate liability. Finally, the results provide some evidence of a substantial reduction in contracting under joint and several liability.

“An Application of the Bootstrap Method to the Simultaneous Equations Model of the Demand and Supply of Audit Services,” by D. R. Dies and R. C. Hill, *Contemporary Accounting Research* (Vol. 15, No. 1, 1998): 83–99.

The paper extends the application of the bootstrap method in accounting research to a simultaneous equations model of the supply and demand of audit services with mixed qualitative and continuous dependent variables. A moderately sized sample of 188 quality control reviews (Copley et al. 1994) is used to demonstrate the bootstrap method and compare results to estimates of standard errors obtained from Amemiya's (1978) asymptotic generalized least squares (GLS) procedure. They find the GLS t-statistics are inflated by as much as 55 percent and the corresponding p-values are likewise overstated when compared to the bootstrap method results. For the qualitative dependent variable for audit quality, the results indicate that the problem is more acute.

“Consumer Perceptions of CPA WebTrust Assurances: Evidence of an Expectations Gap,” by R. W. Houston and G. K. Taylor, *International Journal of Auditing* (Vol. 3, No. 3, 1999 forthcoming).

This paper examines consumers' perceptions of the assurances provided by WebTrust and the effect of WebTrust on their willingness to make Internet purchases. The results suggest that, while WebTrust provided no additional assurances with respect to business and security practices, it resulted in higher perceived product quality. The authors also find product quality to be the most important determinant of subjects' willingness to purchase from a web site displaying the WebTrust seal. The authors suggest that the results indicate the existence of an expectation gap between the AICPA/CICA WebTrust purposes and consumers.

“Uncertainty about Litigation Losses and Auditors' Modified Audit Reports,” by T. A. Buchman and D. Collins, *Journal of Business Research* (Vol. 43, 1998): 57–63.

The purpose of this paper is to address the following research questions: (1) If an audit opinion is qualified, is there a greater probability of loss of the litigation? (2) If the opinion is qualified, is any resulting loss greater than if the opinion is not qualified? The authors' sample consists of 60 firms that had received a “subject to” qualified opinion due to a litigation uncertainty and a randomly matched sample of 60 firms that had received an unqualified opinion but had disclosed a litigation uncertainty in a footnote. Results indicate that firms whose audit reports are modified because of litigation uncertainty are not more likely to lose a lawsuit than firms with an unqualified opinion and footnote disclosure of litigation; however, many losses are reported as being immaterial. Restricting the analysis to firms that reported material litigation losses shows that significantly more of them received qualified opinions than unqualified opinions. The results also indicate that the expected amount of the loss is greater for a firm receiving a modified report than for one only having a footnote disclosure.

“Commitment in Auditor-Client Relationships: Antecedents and Consequences,” by K. de Ruyter and M. Wetzels, *Accounting, Organizations and Society* (Vol. 24, 1999): 57–75.

The purpose of this study is to introduce the concept of “relationship commitment” to the accounting literature and to empirically test several theoretical propositions with regard to the auditor-client relationship. The authors develop a framework that can be used to investigate factors that motivate clients to continue their relationship with an audit firm. The authors then test several hypotheses that flow from their framework by analyzing the responses received on 213 questionnaires returned by surveyed clients of one very large public accounting firm in the Netherlands. The results indicate several significant antecedents (service quality, trust, and interdependence) and consequences (cooperation, opportunistic behavior, and continuance intentions) of commitment in the auditor-client relationship. The authors describe a number of managerial implications for auditing firms suggested by the results. In addition, the authors discuss avenues for future research.

“Client Risk and Recent Changes in the Market for Audit Services,” by F. L. Jones and K. Raghunandan, *Journal of Accounting and Public Policy* (Vol. 17, 1998): 169–181.

This study investigates whether support can be found for statements made by the public accounting profession and others that suggest that increased litigation costs have made large public accounting firms reluctant to provide audit services to clients perceived as having high litigation risk. The authors examine the proportions of certain types of risky clients audited by Big 6 and other independent audit firms to see whether the relative proportions have changed from 1987 to 1994, a period of increasing litigation. The authors examined public manufacturing companies with total assets less than \$50 million. Results indicate that the (then) Big 8 firms were more likely than were other audit firms to audit clients in financial distress or in high-tech industries in 1987. However, in 1994, the authors report a significant reduction in the likelihood that Big 6 firms would audit such clients.

“A Theory of Auditor Resignation,” by K. Bockus and F. Gigler, *Journal of Accounting Research* (Vol. 36, No. 2, 1998): 191–208.

(Continued on page 18)

Executive Director of Independence Standards Board Talks to Auditing Academics

Arthur Siegel, Executive Director of the Independence Standards Board (ISB), spoke at the Auditing Section's annual Midyear Meeting in Atlanta. He stated that his remarks reflected only his personal views and not necessarily those of the ISB or of individual board members.

INTRODUCTORY REMARKS

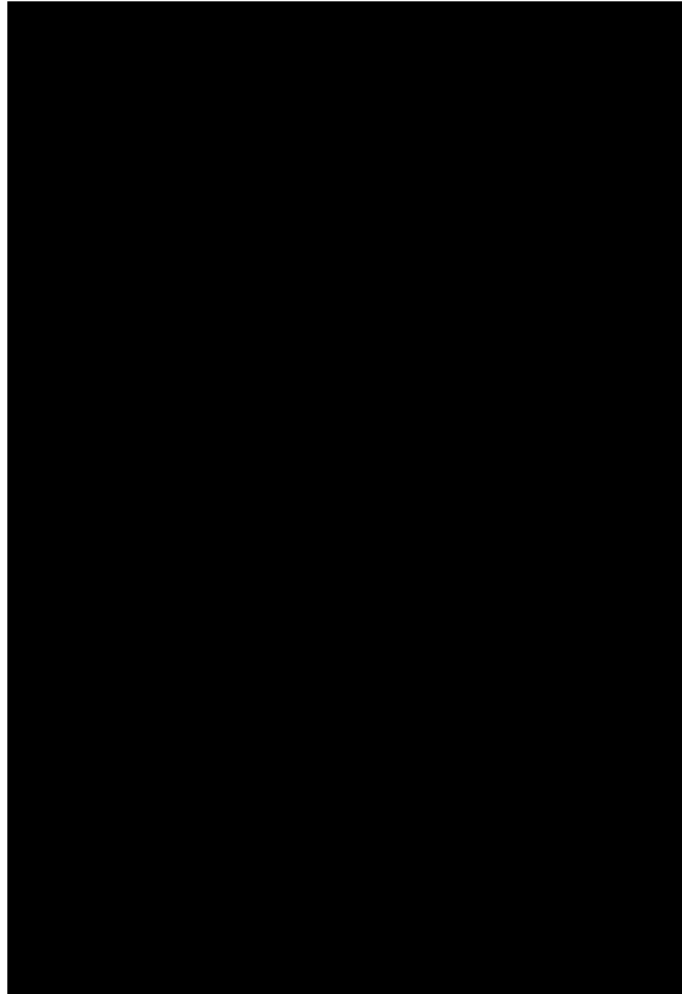
The primary objective of Siegel's remarks was to create interest in the intellectual challenges in which the ISB is involved, in hopes that audience members will become active participants in this area. Siegel suggested that within these challenges lay tremendous research opportunities, and that accounting academics should have a central role in addressing these challenges and opportunities. He also commented on the great need to instill or reinforce ethical values of students entering the profession, noting that if those values aren't there to begin with, it is unlikely that much will change post-employment. He strongly encouraged those in the audience to teach students that auditing is an honorable profession, that ethical values are needed and rewarded, and that an attitude of "everyone does it" is not tolerated by any reputable firm. His purpose was to demonstrate—through action—that the ISB values and wants academic input.

The remainder of Mr. Siegel's speech was divided into two parts: background, matters of organization, mission, and general operation; and a discussion about the ISB's activity to date and where the board is headed. Essential points of those remarks are as follows.

BACKGROUND

The Independence Standards Board came into being because both the SEC and the accounting profession have long wanted a clear conceptual framework for independence rules for auditors of public companies. So why might a conceptual framework be needed? Since the federal securities laws were enacted in the 1930s, the independence rules have evolved in a piecemeal fashion, with no clear underlying set of principles. There are now more than 200 pages of published rules, interpretations and "no-action" letters of the SEC and its staff. These are in addition to 50 pages of rules, interpretations and ethics rulings of the AICPA. The absence of clearly articulated principles means that the rules often cannot be used to provide guidance for new situations. Finally, the multitude of detailed independence rules would eventually make it difficult to harmonize U.S. independence requirements with those of other nations, and in a global economy with increasing amounts of cross-border investing, this has become a higher priority.

However, despite its shortcomings, the current system has worked. Therefore, before discarding the current framework, the ISB is adamant that viable alternatives must be evaluated in terms of how they may better protect the public interest. The ISB's formal operating policies clearly define its objectives and mission: "To establish independence standards applicable to



Arthur Siegel, Executive Director of the Independence Standards Board (ISB), at the Auditing Section's annual Midyear Meeting in Atlanta.

audits of public entities in order to serve the public interest and to protect and promote investors' confidence in the securities markets." A simple and straightforward charge, but a very complex assignment.

The board is comprised of eight members—four from the public and four from the accounting profession. The Chief Accountant of the SEC also attends Board meetings as an observer. The Board is an independent body funded by the AICPA's SEC Practice Section. It sets its own budget and operates autonomously. It is very similar to the FASB. In addition, the Board's deliberative processes are conducted "in the sunshine." The next meeting is April 8, 1999 in New York. One of the ISB's committees is the Independence Issues Committee (IIC). This committee is comprised of eight members from the profession. The IIC's principal role is to deal with emerging independence issues in the same way

(Continued on page 18)

Have You Seen...? (Continued from page 16)

The authors present an economic rationale (i.e., a model) for auditors resigning from the engagements of “risky” clients and then use their model to examine claims that increases in expected auditor liability are giving rise to an increase in auditor resignations. Their theory explains how an incumbent auditor rationally resigns an engagement because any attempt at risk-adjusted pricing leaves the incumbent with only unprofitable clients. Further, it shows how successor auditors who know less about the client than the incumbent can profitably accept the engagement of a client whose auditor has rationally resigned. The authors’ model provides

several empirical implications. First, following a resignation, the client will engage a more wealth-constrained (i.e., smaller) auditing firm. Second, since auditor resignations occur when the incumbent auditor believes it is relatively likely that the client has a hidden risk, firms whose auditors resign have a higher incidence of adverse outcomes than other firms. Third, the incidence of auditor resignations will increase with the level of auditor legal liability. Finally, a client firm’s market value will decline following an auditor resignation since resignation signals an increase in the probability of a hidden risk.

Siegel Speech (Continued from page 17)

FASB’s Emerging Issues Task Force does on emerging accounting issues.

CURRENT ACTIVITIES

The Board is currently working on a project in each of the following areas: development of a conceptual framework for independence, annual independence confirmation to client’s independence, implications of partners and staff being employed by audit clients, and effect of family relationships on independence. The most important project on the Board’s agenda is the conceptual framework. Some early thinking on the possible contents of a conceptual framework includes:

- The investor’s need for reliable and credible financial statements
- The objectives of audits and of auditor independence
- The relationship of independence to objectivity and integrity, including the definition of independence
- If there is a “reasonable investor” test, how that theoretical person might be defined

Another issue involves identifying which factors should be considered in setting independence standards. Examples include:

- Can costs and benefits, if measurable, be considered?
- Can threats to independence be satisfied by firm-specific safeguards, or compensating controls, and if so, when?
- When should the appearance of impaired independence be a factor, and how should that be determined?
- Is materiality a consideration in reaching—or applying—independence standards, and if so, how should it be measured?
- What does “mutuality of interests” mean and when might it properly be considered a threat to independence?

When this project is completed, it will not, of itself, “answer” independence questions, but it should define the parameters within which one would logically find conceptually consistent answers. At the Board’s latest meeting, it approved its first pronouncement, which included requirements for firms auditing public companies to annually describe, in a written report, all relationships with an audit client that could impact independence. In addition, a firm would be required to confirm in that written report its independence and discuss the contents of the report with the client’s audit committee.

Audit professionals often leave firms to join audit clients. Various concerns have been expressed about this practice. One concern involves whether members of the audit team, who may have been friendly with, or respectful of, that person when he or she was with the firm, would be reluctant to challenge the decisions of that individual. Another aspect of this issue relates to situations where partners or other team members resign to accept positions with audit clients. Sometimes, questions may be raised regarding whether the individuals exercised an appropriate level of skepticism during the audit process prior to their departure. Finally, the departing partner or professional may be familiar enough with the firm’s audit approach and testing strategy so as to be able to circumvent its design. Two solutions have been proposed. One involves the establishment of safeguards or mitigating controls by the audit firm. The other establishes a mandated cooling-off period.

The fourth project is in the area of family relationships. Related questions involve the nature of a family relationship. In addition, the notion of “who is the auditor” has evolved. There are a number of complex issues that need to be considered in this area. These include:

- Should considerations be different for those participating in an engagement vs. firm personnel not on an engagement?
- What is a “close family” relationship?
- Do different rules for partners, managers and all other employees make sense?
- Is geographic distance a mitigating control today, or is using the chain of command better?
- Are there materiality considerations that need to be considered?
- Can “firewalls” within the auditing firm be effective?
- What is the best practice?

Finally, the Independence Issues Committee is considering two important issues: Alternative Practice Structures, and FAS No. 133. The latter relates to FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The subject of this project addresses the kind and level of assistance that auditors can provide their audit clients in accounting for and valuing derivatives as part of implementing FAS No. 133.

In wrapping up his comments, Siegel indicated that the ISB has a web site at www.cpaindependence.org.

1999 Midyear Meeting
American Accounting Association— Auditing Section
Statement of Cash Receipts, Disbursements, and Cash Balance (Note 1)

	FY 99: 9/1/98–11/30/98 (ACTUAL)	FY 98: 9/1/97–11/30/97 (ACTUAL)
RECEIPTS:		
Membership Dues (Note 2)	\$ 5,807.00	\$ 7,427.50
Journal Subscriptions	6,822.50	6,525.00
Sales of Publications/Royalties	212.20	183.61
Journal Submission Fees	1,500.00	1,200.00
Journal: Reimbursement of Prior Year Cost	–	9,612.87
CPE (net)	–	–
Reimbursements	50.00	–
Midyear Meeting Registration	110.00	–
Interest Income (Note 3)	558.83	–
Miscellaneous Receipts	–	(45.00)
TOTAL RECEIPTS	\$15,060.53	\$24,903.98
DISBURSEMENTS:		
Awards	–	–
A:AJPT—Printing / Distribution (Note 4)	3,123.00	14,434.94
A:AJPT—Editorial Support	–	–
Newsletter: <i>The Auditor's Report</i> (Note 5)	2,501.66	418.32
Midyear Meeting	1,030.44	587.76
Meeting Rooms—Annual Meeting	–	–
Committee Travel	–	–
Miscellaneous Expenses	0.78	113.53
TOTAL DISBURSEMENTS	6,655.88	\$15,554.55
Cash Increase (Decrease)	\$ 8,404.65	\$ 9,349.43
Beginning Cash Balance	69,073.28	52,203.55
Ending Cash Balance	77,477.93	61,552.98

NOTES:

1. The Statement of Cash Receipts, Disbursements, and Cash Balance was compiled from the monthly financial reports received from the American Accounting Association national office.
2. As of November 30, 1998 (1997), there were 1,251 (1,267) U.S. members and 431 (446) foreign members; 1,553 (1,569) were full members and 129 (144) were associate members. Per Roland LaTulip, the 22% decline in membership revenues is due to the fact that 1999 membership due payments are not coming in as early this year as they did last year.
3. The AAA instituted a policy this year to credit the Section with an interest return based on the average return earned by the AAA on its sweep account multiplied by the Section's cash balance at the end of the previous month.
4. In the first quarter of FYE 98, two issues of *A:AJPT* were published (Spring 97, Fall 97). No issues of *A:AJPT* were published during the first quarter of FYE 99. The charges incurred during the first quarter of FYE99 were almost totally for AAA staff support. The staff support represents typesetting charges for the Fall 98 issue of *A:AJPT*. The printing charges will appear on the December 98 statement.
5. The increase reflects the fact that a paper copy of *The Auditor's Report* was distributed during the first quarter of FYE 99, the Fall issue of *The Auditor's Report* was distributed electronically during the first quarter of FYE 98.

OHIO REGIONAL AAA MEETING
April 15–17, 1999

Members of the Auditing Section of the American Accounting Association are invited to join us at the 1999 meeting of the Ohio Regional AAA. The meeting will be held on Thursday, April 15 through Saturday, April 17, 1999, at the beautiful Sheraton Suites Hotel overlooking the falls in Cuyahoga Falls, Ohio.

Come celebrate the end of tax season with your colleagues

from all over the country and particularly from Ohio. The conference will likely include continuing education programs, plenary sessions, and papers in all accounting disciplines.

Direct further inquiries to Penny Marquette, Program Chair, 1999 Ohio Regional AAA Meeting, Daverio School of Accountancy, University of Akron, Akron, Ohio 44325-4802; phone: (330) 972-6233; email at PMarquette@Uakron.edu.

Arnie Wright to Serve as Next *AJPT* Editor

I am pleased to announce to the members of the Auditing Section that Arnie Wright has been selected to serve as our next Editor of *Auditing: A Journal of Practice & Theory*. Arnie's three-year term as Editor commences Summer 1999. On behalf of the Section's membership, I would like to thank Arnie for continuing to serve the Auditing Section in such significant ways. Also, I would like to thank Bill Felix for his dedication and service as Editor of *AJPT* during the last three years. Under Bill's reign, *AJPT* has continued to publish high-quality research of interest to a broad base of academics and practitioners. Finally, I would like to thank Barry Cushing and the rest of the Editor Nominations Committee for doing an outstanding job identifying and selecting a fine new editor for our journal. Tim Bell, President, Auditing Section

AAA Accounting Coursepage Exchange

Have you seen the Accounting Coursepage Exchange on the American Accounting Association's web page? It's a database loaded with ideas you can use in developing your courses. You can search the database by course title, instructor name, institution or textbook.

If you have coursepages available on the web, you may want to share them with your colleagues by adding them to the Accounting Coursepage Exchange database.

Visit the Accounting Coursepage Exchange at:

<http://www.rutgers.edu/Accounting/raw/aaa/ace/index.htm>

Home Page updated weekly: <http://AAA-edu.org>

Invitation to Volunteer for Committees

President-Elect Jan R. Williams is filling AAA committee assignments for 1999–2000. If you are interested in serving on a committee or in suggesting someone to serve, please send contact information (name, affiliation, address, phone, fax and email) with any specific committees of interest to:

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