**Newsletter Contents**

<table>
<thead>
<tr>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of the President</td>
</tr>
<tr>
<td>PCAOB Standards Update</td>
</tr>
<tr>
<td>Auditing Standards Board Committee Update</td>
</tr>
<tr>
<td>Have You Seen...?</td>
</tr>
<tr>
<td>Have You Seen These Educational Resources?</td>
</tr>
</tbody>
</table>

**Calls and Announcements**

<table>
<thead>
<tr>
<th>Announcement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 American Accounting Association Midyear Auditing Section Conference</td>
</tr>
</tbody>
</table>
I hope your Fall semester is going great. In South Carolina we will not experience fall weather until around Thanksgiving; however, the fall semester is moving at full speed. I would like to claim that the excitement of the new semester is due to the work that is being done by faculty and students in accounting, but I know at some schools it could be due to the College Football season underway. Good luck to all of you in filling your students with knowledge and to your football teams (except during a week they play one of my favorite teams).

It is an honor for me to serve as President of the Auditing Section. As I said during my speech at the Annual meeting in San Francisco, we have a great section (Vandervelde 2019). Further building of my citation count. 😊 If you do not understand the citation, ask someone who was in attendance at the Auditing Section luncheon. I would like to start my letter by thanking all of those who serve on the Executive Committee, the Section’s standing committees, and the ad hoc committee volunteers that generously give their valuable time to the Section. From my very first meeting with the Executive Committee a year ago, I have felt the passion for serving the section from all of the members. That has continued with our current Executive Committee. The Executive Committee, along with additional volunteers serving on ad hoc committees, are currently working on a number of strategic initiatives to ensure that the section serves you as best it can. On another front, the Section’s standing committees are doing great work to ensure that we have high quality meetings, meaningful interactions with practice, and a positive influence on education, practice, and standard setting. The standing committees do a lot of additional work to keep the Section running smoothly. I will briefly discuss some of the work that is going on and then will provide a brief recap of the Annual Meeting, a preview of the upcoming Midyear Meeting, and some news about research opportunities.

The Auditing Standards Committee (ASC) is tasked with providing insight from our research to the standard-setting process. This hard-working committee, led Veena Brown (Chair), and Tammie Schaefer (Vice Chair) organizes project teams to respond to proposed standards or other calls for responses by
summarizing and highlighting the insights from our collective research. I encourage you to read about their activities in the newsletter and to thank the members who have contributed to each of those project teams. When you see a new call for comment from a standard setting body, if you would like to be involved in the Auditing Section’s response to that call, please contact either Veena or Tammie.

**Annual Meeting 2019**

I hope you had the opportunity to attend the meeting in San Francisco. It is always great to catch up with friends and colleagues, and hear about the interesting research people are doing during the sessions. I would like to thank the meeting Chairs Scott Bronson, Tamara Lambet, Joe Schroeder, and Karen Ton for putting together an impressive program. They managed the review process, put together concurrent sessions and panel sessions, assigned moderators and discussants, and assisted the AAA staff in ensuring a valuable experience for all of our members. They were assisted by Vice Chairs Miguel Minutti-Meza, Stephen Perreault, Jonathan Shipman, and Sarah Stein, who will soon get to work planning next year’s annual meeting. Planning these meetings is a lot of work and they all did a fantastic job, handling 194 manuscript submissions and putting together 36 concurrent sessions and 3 panel sessions this year. Please thank them the next time you see them. Also, please remember to register each year to volunteer to serve as reviewer, discussant, or moderator when you see the call go out to make the meeting organizers’ job easier.

Prior to the annual meeting, the Center for Audit Quality (CAQ) hosted their Annual Symposium. The Symposium brings together senior practice leaders and academics for a dialogue on issues of importance to the profession. This year's meeting was titled, “Audit Practice Meets Audit Research.” You can view those panel discussions on the CAQ website (dated 08.11.19) at [https://www.thecaq.org/resources/videos](https://www.thecaq.org/resources/videos).

At the Section lunch meeting, we welcomed our new Executive Committee members: Keith Jones as Vice President – Academic, and Tina Carpenter as our Treasurer. The remaining committee members include Kathryn Kadous, who assumes the role of Past President after doing a great job as President, Becky Sproul who continues as Vice President – Practice, Marsha Keune who continues as Secretary, Randy Eldar who continues as Council Representative, and Mark Taylor who continues as Historian. We thanked Rick Hatfield for his service as Past President, and Chad Stefaniak for his service as Treasurer. Please feel free to contact any of the Executive Committee members if you have questions about the Section or suggestions for how we can serve you better.

**2020 Midyear Meeting in Houston, TX**

2020 marks our 26th Midyear Meeting. Our meeting will be held at the Hyatt Regency Houston in Houston, TX on January 16-18. The conference hotel is in a fabulous location, within walking distance of many fantastic restaurants, as well as a short ride to museums, and NASA. Leading the meeting are Co-Chairs Pennie Bagley, Allen Blay, and Marleen Willekens, who have been hard at work to put together a great program for you. They are strongly assisted by Vice Chairs Scott Bronson, Tamara
Lambert, and Joe Schroeder. We are grateful to KPMG for their continued support of the Midyear Meeting. KPMG’s support greatly enhances the value of this event.

The planning team has some great ideas for the Midyear Meeting, including working on lining up two very interesting plenary speakers. You will have to attend to find out who they are. 😊 We had 179 papers submitted for consideration for the conference this year. Thank you to all of the volunteer reviewers who are helping our Chairs and Vice Chairs put together another great program. Last year’s poster session received positive feedback, so we will continue that again this year. This session is run during an afternoon coffee break in lieu of the breakfast research forum. Authors of papers selected for the poster session have the opportunity to create visual displays of their work, and meeting participants can peruse the displays and ask questions of the authors while enjoying some coffee. Consistent with “how we roll” in the Auditing Section, it will be a fun, informative, and interesting meeting, so you won’t want to miss it.

We will once again have two events on the Thursday preceding the Midyear Meeting: the Doctoral Consortium and the Excellence in Audit Education Workshop. The Chair of this year’s Doctoral Consortium, Justin Leiby, is putting together an excellent program with the assistance of Vice Chair Jaime Schmidt. The consortium is an incredible experience that doctoral students should not miss. This year’s Consortium will cover all the essentials on Thursday afternoon, making it possible for some doctoral students to save a day of travel by arriving in the morning. We thank KPMG for sponsoring this valuable event. The Excellence in Audit Education Workshop is put together by committee Chair Jason Smith, Vice Chair Christine Gimbar, and Practice Chair Becky Sproul. The theme of the 2019 workshop is “How Are Innovations in Technology Influencing the Audits of today and Tomorrow?” The workshop brings practitioners and educators together to explore innovative methods of educating students to prepare them for an accounting career. The workshop will be a very active learning process. If you teach auditing, you will not want to miss this workshop.

**CAQ Grants**

The CAQ’s Access to Audit Personnel Program (AAP) assists scholars in obtaining access to auditor participants for experimental/behavioral research. I encourage Section members to apply. To be considered, submit your well-prepared proposal with a complete data collection instrument by February 6, 2020. Winners of the 2020 AAP grants can expect to collect data from auditors during the Summer of 2020. To increase your chances for a successful submission, please see the CAQ’s website for a helpful video on preparing a successful proposal found at the following web address:

[https://www.thecaq.org/collections/the-access-to-audit-personnel-program/](https://www.thecaq.org/collections/the-access-to-audit-personnel-program/)

In closing, let me once again thank all of the members who volunteer their time and effort to contribute to the success of the Auditing Section. I encourage you all to think about a meaningful way you would like to serve the Auditing Section and consider volunteering in the future, including consider serving on
the Executive Committee so that you can experience firsthand how much our members care about the Section.

I look forward to seeing you in Houston in January.

Scott Vandervelde, President
Introduction

This Update addresses select PCAOB developments since the Summer 2019 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- PCAOB Scholars for the 2019-2020 Academic Year
- Update on the Quality Control Project
- PCAOB Staff Guidance on Auditing Estimates and Auditor’s Use of the Work of Specialists
- Settled Disciplinary Proceedings
- PCAOB Conference on Auditing and Capital Markets

PCAOB Scholars for the 2019-2020 Academic Year

On August 1, 2019, the PCAOB announced that 207 students from U.S. colleges and universities were selected to receive a $10,000 scholarship for the 2019-2020 academic year.

The Sarbanes-Oxley Act of 2002 requires that monetary penalties imposed by the PCAOB in its disciplinary proceedings be used to fund a merit scholarship program for students in accredited accounting degree programs. In 2019, the Board refined the program criteria and, for the first time, created a pilot program to award scholarships to students who transferred from a two-year institution to the accounting program at a four-year institution.

A description of the program, including information on the nomination process, the selection of nominating institutions, and other details can be found on the scholarship program page of the PCAOB website at https://pcaobus.org//About/Pages/Academic_Scholarship.aspx.

All participating institutions, along with the named PCAOB Scholars, are available at https://pcaobus.org/News/Releases/Pages/207-students-named-PCAOB-scholars-2019-2020-academic-year.aspx.

Update on the Quality Control Project

On August 9, 2019, the PCAOB’s project on Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities became a standard-setting project. The staff is currently developing a concept release for the Board’s consideration in the fourth quarter of 2019. The concept release would seek public comment to inform the direction of the standard-setting project.
The updated Quality Control project page is available at:

If interested, you can sign up to receive email updates on PCAOB research, standard-setting, and implementation projects at:
https://pcaobus.us10.list-manage.com/subscribe?u=124c85b50a8374f0468d767b1&id=6529ce9373.

**PCAOB Staff Guidance on Auditing Estimates and Auditor’s Use of the Work of Specialists**

On August 22, 2019 the PCAOB released four staff guidance documents to raise awareness and assist auditors in advance of the effective date of new estimates and specialists audit requirements. The requirements are effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

The staff guidance consists of:

- Auditing Accounting Estimates
- Auditing the Fair Value of Financial Instruments
- Supervising or Using the Work of an Auditor's Specialist
- Using the Work of a Company’s Specialist

The first two documents highlight aspects of the new standard and enhancements made to integrate the Board’s risk assessment requirements when auditing accounting estimates, including fair value measurements. The other two documents highlight aspects of new requirements that apply when auditors use the work of specialists in an audit and when an auditor uses the work of a company specialist as audit evidence. The Board and staff will continue to monitor firms’ implementation efforts and determine if further guidance is needed.

The documents, along with additional information, are available on the implementation webpages for the new estimates standard at

amendments for the auditor’s use of the work of specialists at

**Settled Disciplinary Proceedings**

On September 10, 2019, the PCAOB announced the settlement of disciplinary proceedings against Marcum LLP and Marcum Bernstein & Pinchuk LLP, as well as Alfonse Gregory Giugliano, CPA. This is the first time the Board has: (1) sanctioned a registered public accounting firm for publicly advocating its
audit clients as investment opportunities—a violation of auditor independence requirements; (2) sanctioned an annually inspected firm’s head of independence for substantially contributing to the firm’s independence violations; and (3) mandated the retention of an independent consultant.

The matters concern auditor independence violations over multiple years in connection with the firms’ annual Microcap Conference and China Conference, which were designed to bring together investors and companies looking for investment. In addition to violating independence requirements, both firms violated quality control standards by failing to appropriately design, implement, and monitor their independence policies and procedures.

In the settled orders, the PCAOB censures and imposes monetary penalties on each firm and Giugliano. In addition, the PCAOB requires Marcum LLP to engage an independent consultant to review its policies, procedures, staffing, and training with respect to meeting and maintaining auditor independence, and also requires Marcum Bernstein & Pinchuk LLP to undertake a review of the same areas.

The settled disciplinary orders are available on the PCAOB website at https://pcaobus.org/Enforcement/Decisions/Pages/default.aspx.

**PCAOB Conference on Auditing and Capital Markets**

The PCAOB 2019 Conference on Auditing and Capital Markets was held October 17-18, 2019 in Washington DC. It was organized by W. Robert Knechel, University of Florida, and the PCAOB Office of Economic and Risk Analysis. Those in attendance enjoyed a terrific conference agenda which can be found on the PCAOB website at

The ASB most recently met in July 2019 in Dallas, TX. Five new members joined the board. You can read bios of the board members at https://www.aicpa.org/research/standards/auditattest/asb/asbbiography.html

Key topics discussed at the July meeting included:

- Estimates
- Auditor Reporting (800 series)
- Attestation Standards

The ASB has provided a 15-minute podcast of this meeting’s highlights, which you can access at https://www.podomatic.com/podcasts/asb201707/episodes/2019-08-05T12_52_28-07_00

You will find a high-level 2-page summary of the discussion related to these topics at https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/asb/documents/mtg/1907/2019-07-asb-mtg-high-level-summary.pdf

Two notable highlights of the meeting include the ASB voting to ballot for issuance as an exposure draft:

1. Proposed SAS Auditing Accounting Estimates and Related Disclosures, which would supersede AU-C section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures. Comments on this exposure draft are due November 22, 2019.

and

2. Proposed SAS Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134. Comments on this exposure draft were due in September.

With respect to attestation standards, the Board is targeting a final standard for agreed-upon procedures for Oct 2019 and for reviews and examinations in early 2020.

The fall meeting of the ASB is October 28-31, 2019, in New York, NY. You can find agenda items for that meeting at https://www.aicpa.org/research/standards/auditattest/asb/201910-asb-meeting-agenda-materials.html
If you are interested in projects the board is working on or has recently completed, you can review that information at

https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/asb/downloadable

The ASB has identified a number of projects that might be of interest to you as an educator and as a researcher, including risk assessment, quality control standards, group audits, and professional skepticism. The ASB is planning for a final standard on materiality to be balloted for issuance at its October 2019 meeting.

This study uses reflexive memory work to examine how the socialization process experienced by auditors impacts them after they leave the firm. To explore how auditors construct their social memories, the authors conduct 37 semi-structured interviews with ex-auditors who worked at large accounting firms in Canada and now hold accounting or finance positions in industry. The results indicate that ex-auditors have two types of social memories: communicative memories (i.e., individual, autobiographical communications about the past) and cultural memories (i.e., shared representations that support a group’s identity). The ex-auditors’ communicative memories reflect their decision to leave the firm, which stems from value conflicts between their self-identity and the firm’s work culture, feeling unappreciated by their superiors, and perceptions that the client found little value in their audit work. In contrast, the ex-auditors’ cultural memories project feelings of nostalgia of the “good old days” working at the firm. They discuss maintaining the connections and social bonds with their mentors and other employees at the firm. They also express a sense of gratitude to the public accounting firms for their technical expertise and work ethic, and project claims of professional superiority from working at these types of firms.

“Ego Depletion and Auditors’ JDM Quality.” By Patrick Hurley *Accounting, Organizations and Society* 77: In-press.

This paper examines whether auditing tasks lead to ego depletion, and the effect of these depleting tasks on the quality of auditors’ judgments and decisions (JDM quality). According to theory, ego depletion is a temporary state where using self-control or willpower expends an individual’s self-control resources, causing subsequent performance of a self-control task to suffer. Experiment 1 uses a 1x3 between-subjects experiment to test the causes of depletion. Audit senior associates complete one of the following self-control tasks, which are focused on either cognitive processing, impulse inhibition, or maintaining vigilance/focus. Results show that a task requiring auditors to maintain vigilance/focus leads to more depletion than the impulse inhibition task. The cognitive processing and inhibition tasks lead to similar depletion levels. Further, task-specific experience does not reduce depletion incurred by performing a task. Experiment 2 uses a 1x4 between-subjects experiment to test whether the three depletion tasks in Experiment 1 (plus a non-depleted control condition) impact audit senior associates’ JDM quality. Compared to the non-depleted control group, auditors who complete depleting tasks exhibit poorer cognitive processing, but the JDM quality is not significantly different.


This study investigates how investor sophistication and the prospect of a critical audit matter (CAM) disclosure affect audit committee members’ propensity to challenge management’s significant
estimates. The author conducts a 2x2 between-subjects experiment with 78 highly experienced audit committee members, manipulating investor sophistication (unsophisticated vs. sophisticated) and the prospect of CAM disclosure (CAM versus no CAM). Following the theory of helping behavior and social responsibility norms, the author predicts and finds that audit committee members ask management more challenging questions when the primary shareholders are unsophisticated, and this effect is stronger when there is a prospect of a CAM disclosure in the audit report. Mediation analysis shows that audit committee members' perceived oversight duty is the underlying mechanism of how investor sophistication and prospective CAMs affect their questioning behavior.


This study utilizes United Kingdom (UK) data to explore the impact of audit-related regulatory changes on financial reporting quality, as several audit disclosure requirements recently adopted in the U.S. have already been implemented there. In particular, the UK has already adopted disclosures regarding critical audit matters, auditor tenure, and audit firm independence. The authors find that the new auditor reporting requirements are associated with significant decreases in abnormal accruals and the propensity to narrowly meet or beat analyst forecasts, as well as a larger response to unexpected earnings. Turning to cost considerations, the authors also fail to find evidence of an audit fee increase or audit lag increase despite the increased disclosure requirements. Taken as a whole, this evidence suggests the expanded disclosures of critical audit matters are associated with higher financial reporting quality, while not materially impacting the costs of the audit (in terms of price and time).


In this study the authors consider whether a signaled positive change in the audit report (i.e., moving from an adverse internal control opinion to a clean one, moving from a going concern warning to no mention of a going concern issue) reflects actual substantive improvement in the underlying risks to the client. The authors find that companies with a newly-clean internal control report are more likely to restate their current-year financial statements than peers that held a clean internal control opinion in both years. This does not rule out the internal control report reflecting improvement, but it does suggest that some degree of residual risk persists (relative to companies with no reported internal control issues) that the binary reporting requirements do not capture. A similar finding exists for going concerns, companies “losing” their going concern warning are more likely to go bankrupt than their peers who never had a going concern modified report.


Taking advantage of several unique data sources available in Sweden, this study considers whether audit partner IQ is associated with audit quality. While audit partner name data is increasingly available in many countries, Sweden also historically requires compulsory military service for men which includes taking a cognitive ability test. Using the results of that test as an independent variable, the authors find that partner IQ is correlated with greater going concern report accuracy, both in the aggregate and when breaking out Type 1 and Type 2 errors separately. Additionally, they find that partner IQ is associated with higher audit fees, and weak evidence that partner IQ is negatively related to the client’s income-increasing abnormal accruals.

This case provides a brief history of Toshiba and the impact of a company acquisition and the recent financial crisis on this company. It then goes on to describe the earnings management that the company engaged in following the financial crisis. The case asks students to consider ideas such as the links between business risks and audit risk, the fraud triangle, red flags, etc. Students are also asked to engage with auditing standards that relate to the case.


This case study provides students with access to 1000 customer accounts in order to simulate accounts receivable confirmations. Potential uses of the case include random selection of the customers to send confirmations to, receipt of confirmation responses to evaluate (including seeded discrepancies), as well as automatically-generated client documents (e.g., invoices) for follow-up procedures when no response is given to a confirmation request. There is also content related to factors that impact sample size, documentation, and critical thinking.


This case provides students with much needed practice in understanding and performing data cleaning procedures. This four part case provides students with background understanding the importance of properly prepared data and allows students to perform data clean up procedures. Furthermore, students are provided with an activity intended to enhance their Excel skills by completing requested data manipulation tasks. The purpose of the case is to provide students with insight as to the importance of the use of clean data in the audit, as well as to enhance Excel skills.
Dear Members,

Please make plans to attend the Twenty-sixth Annual Auditing Section Midyear Meeting in Houston, Texas at the Hyatt Regency Houston on January 16-18, 2020

Register Online with your AAA Login ID and password. If you have forgotten your Login ID and/or password, click here. (Note that the email address you enter must match your AAA profile.) If you do not receive an email response, contact info@aaahq.org.

The meeting is conveniently located in downtown Houston and surrounded by award-winning restaurants, shops, and museums. During your visit to America’s fourth-largest city, consider visiting Houston’s Museum District, Space Center Houston, The Houston Zoo, The Downtown Aquarium, Kemah Boardwalk, and the World-Famous Houston Livestock Show and Rodeo. A limited number of rooms have been reserved at the conference rate. PLEASE make your reservations as early as possible to take advantage of this special room rate. Note we cannot guarantee that any additional rooms will be available in the hotel once our block of rooms is sold out, even if the block is sold out before the cut-off date. Complimentary internet access is offered in guest rooms, if booked within group block. A limited number of rooms have been reserved at a rate of $175 per night. Please make your Hotel Reservations before December 23, 2019 to take advantage of this special room rate. Register Online for the Early Registration fee of $395 ($250 for doctoral students) through December 16 for Auditing Section Members, after which the Registration fee is $445 ($250 for doctoral students).

Similar to previous meetings, the program will include plenary sessions, concurrent sessions, and panels addressing a wide variety of contemporary topics related to audit and assurance research, practice, and education.

This year’s program will again include a pre-meeting Excellence in Auditing Education Workshop sponsored by the Section's Education Committee. The workshop will begin Thursday afternoon at 1:00 pm. The purpose of this Excellence in Auditing Education Workshop is to bring together auditing academics and auditing educators in professional practice to explore best practices relating to developing critical thinking skills in the classroom.
Doctoral Student Registration Information

The 21st Annual Auditing Section Doctoral Consortium chaired by Susan Scholz will be held on January 17. The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students, established auditing researchers, and journal editors. The Consortium is open to all Ph.D. students who have an interest in auditing research. Students may be at any stage in their program. Priority will be given to students who did not attend the consortium in past years and if there are more than two applicants from a school, the PhD coordinator will be asked to rank order the candidates. Students who attend the Consortium are eligible to receive up to two years of complimentary membership in the Auditing Section and in the AAA. There is no cost to apply or attend the Auditing Section Doctoral Consortium, if selected. Any student wishing to attend must complete the application process. The deadline for consortium applications is October 30; the organizers will issue invitations to attend by November 15. Alternates will also be notified in case any invited students decide not to attend. To apply for an invitation to the Consortium, complete the online application. You can access the application here:

https://www2.aaahq.org/aaaforms/AUDITDC/2020/index.cfm

Please note that the application for the Consortium is separate from registration for the Auditing Section Midyear Meeting which follows the Consortium. Students wishing to register for the Midyear Meeting can do so by registering online by December 16, 2019. The Midyear Meeting student registration fee is $250 for AAA student members.

We thank the KPMG Foundation for its continued and generous support in sponsoring the 2020 Auditing Section Midyear Meeting and the 21st Annual Auditing Section Doctoral Consortium.

Make plans now to join us in Houston in January!

Regards,

Pennie Bagley, Allen Blay, and Marleen Willekens
2020 Auditing Section Midyear Meeting Co-Directors