Greetings from beautiful Provo, Utah where fall is in the air and the Wasatch Mountains are getting their first dusting of snow. Whether you are in higher education, government, industry, or the broader assurance profession, I trust the fall has you and those you are working with actively engaged in a host of exciting activities. I hope we all take the time to consider just how fortunate we are to be associated with the next generation of bright and talented professionals. In this, my first President's Message, I would like to express an opinion regarding our section. Before doing so, I want to assure you that I have applied independent, objective thinking in my efforts to gather sufficient appropriate evidence. Through inquiry, observation and a host of other procedures, it is the unbiased view of this professional skeptic that the Auditing Section is the finest of sections—jammed packed with truly outstanding and dedicated individuals. Over the last several months I have had the opportunity to extend invitations to a number of members to step up and serve in various capacities and I have a renewed appreciation for the quality and goodness of the individuals in our section. It is an honor and privilege to associate with you and to be able to give back in some small way to an organization that has done so much to enhance our collective professional experience.

As you have heard in prior messages, our Auditing Section Executive Committee has formed a task force to embark on a strategic planning process. As we refine our strategic initiatives there will be additional opportunities for members to serve and participate. We will be sharing more information about the current status of the strategic initiative in a series of emails this fall and at the mid-year meeting in January. I want to thank members of the Executive Committee and the Strategic Planning Task Force for their effort and contribution.

**Audit Educator Bootcamp**
In June the Education Committee organized the second bootcamp. The bootcamp was a three-day program held on the campus of DePaul University. We would like to thank Ray Whittington and DePaul for being such gracious hosts. The bootcamp provided audit
educators with an overview of current practice issues and contemporary audit methodologies of a number of large auditing firms. Jay Thibodeau, Bentley College, and Frank Buckless, North Carolina State University, served as the primary instructors and were joined by leading audit professionals from various firms who helped lead the discussion. The program was a great success. Here is an excerpt from participant feedback:

"This is without a doubt the BEST workshop I have ever attended. It is an incredible learning experience and will add substantial richness to my audit course. Jay and Frank do an awesome job and are so willing to share their expertise. Thanks to the Auditing Section for sponsoring this event!"

Thanks to the Jay Rich, Chair of the Education Committee, Ray Whittington, Frank Buckless, Jay Thibodeau, and all those who had a hand in making the bootcamp a success.

2010 AAA Annual Meeting San Francisco, CA
Kenny Reynolds and Karla Johnstone did a terrific job coordinating the Auditing Section's program at the Annual Meeting. This year the Section received nearly 170 submissions and had around 110 papers presented in concurrent sessions. The Section also sponsored a number of panel sessions. In addition to the panelists and paper presenters, the Section's part of the program involved the work of many moderators and discussants, as well as several hundred reviewers. Thanks to all for the excellent service.

In conjunction with the annual meeting, for the second year The Center for Audit Quality (CAQ) held a half-day symposium to facilitate dialogue and collaboration between leading practitioners and audit scholars. Over 75 participants attended; approximately half academics and half leading professionals from practice, including 3 CEOs and other representatives from the IIA and IFAC. The symposium featured two panels, one on professional skepticism and one on fraud risk. We appreciate the CAQ's efforts in fostering productive collaboration between the academy and practice on issues important to delivering high quality assurance services.

The Annual Meeting also marked the completion of service of the following members on the Auditing Section Executive Committee:

- Shaun Budnick, Vice President Practice
- Audrey Grambling, Past President (and before that VP Academic and President)
- Linda McDaniel, Historian
- Jay Thibodeau, Secretary

The section owes a tremendous debt of gratitude to these talented individuals for their significant contribution and countless hours of dedicated service.

We are pleased that the following individuals joined the Executive
Committee in August:

- Walt Conn, Vice President Practice
- Jennifer Joe, Secretary
- Larry Rittenberg, Historian
- Scott Showalter, Vice President Academic, President Elect

Webinars
The CPE and Research Committees of the Section continued providing continuing professional education through a webinar series. In March, Kathy Hurtt and Charles Davis, Baylor University, presented materials on professional skepticism, which was the subject of Kathy’s doctoral dissertation. The webinar featured immediate feedback to polling questions and other inquiries from the audience.

In November, the Auditing Section is teaming up with the CAQ and Wiley to provide a webinar on fraud risk. Information on the webinar will sent to members via email. If you have an interest in conducting a webinar contact Rick Lillie, chair of the CPE committee, rlillie@csusb.edu or Jeffrey Cohen, chair of the Research Committee, cohen@bc.edu.

KPMG Continued Generous Support
We are grateful to the KPMG Foundation for its continued support of Section’s Mid-Year Meeting and Auditing Doctoral Consortium. The Foundation provides critical financial support for the Section’s efforts to promote excellence in the teaching, research, and the practice of auditing and assurance services. Our sincere thanks to KPMG LLP, the KPMG Foundation Trustees, and Bernie Milano, President of The Foundation, for this important and generous support.

Albuquerque January 2011
The 2011 Auditing Section Mid-Year Conference will be held January 13-15 at the Albuquerque Marriott Hotel in Albuquerque, NM. Mike Wilkins and Scott Vandervelde, conference co-chairs, are arranging an outstanding event. You should have received information on conference dates and registration. Plenary speakers include Roderick Winters, General Manager, Finance Operations of Microsoft Corporation and Past Chairman of the IIA Global Board of Directors, and Bill Gradison who was appointed by the Securities and Exchange Commission as a founding member of the Public Company Accounting Oversight Board. Bill was unanimously reappointed to a full five-year term in August 2004, and served as Acting Chairman from December 2005 to July 2006.

This year's pre-conference workshop continues the Excellence in Auditing Education theme of our past three pre-conference workshops. This year the workshop is being coordinated by Jack Krogstad and Gerald Smith and will focus on the positive influence integrity has on business and professionals. In addition to in addition to providing participants with actionable steps to enhance their personal integrity, a key goal of the workshop is to provide the means for educators to improve the level of integrity in the next generation of entrants to the auditing profession. The workshop begins at 1:00 Thursday January 13.
Doctoral Consortium
We continue our tradition of holding a Doctoral Consortium prior to the conference. Kathryn Kadous, the Consortium Coordinator, has an exciting program planned for January 13. 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.

I hope to see you in Albuquerque in January.
Seventeenth Annual Midyear Auditing Section Conference

Please make plans to attend the Seventeenth Annual Auditing Midyear Conference to be held in Albuquerque, New Mexico on January 13-15, 2011. The Conference will be held at the Albuquerque Marriott, an AAA 3 Diamond property, located in the heart of Albuquerque's restaurant and shopping district. The hotel is just minutes from the Albuquerque Sunport, Historic Old Town, and the Sandia Peak Tram. A limited number of rooms have been reserved at the special conference rate of $139 per night inclusive of internet access, single or double. Please make your reservations before December 13, 2010 to take advantage of this special room rate.

The KPMG Foundation is generously sponsoring the Midyear Conference. Similar to previous years, the meeting will include two keynote plenary speakers and concurrent sessions dealing with a wide variety of contemporary topics related to audit and assurance research, practice, and education.

The Friday morning plenary session will feature a presentation by Roderick Winters, General Manager, Finance Operations of Microsoft Corporation and Past Chairman of the IIA Global Board of Directors. Until recently, Winters led Microsoft's Internal Audit group which is widely viewed as an innovative audit organization and as a leader in leveraging technology and employee empowerment to optimize audit productivity, impact, and value contribution. Prior to joining Microsoft in 1994, Winters spent 11 years with Deloitte & Touche, most recently as the director of marketing and communications for the Seattle office. Winters has been an active member of The Institute of Internal Auditors (IIA) since 1994, and is currently a member of the IIA's Global Board of Directors, Executive Committee, and is Chairman of the Global Nominating Committee. He served as the 2009-2010 Global Chairman of the Board, during which time he challenged internal auditors worldwide to Achieve Our Potential”. Winters has also served in the roles of Senior Vice Chairman of the Board, Vice Chairman of the Board for Research and President of the IIA Research Foundation (IIARF), and Chairman of the Internal Auditing Academic Advancement Fund (IAAAF), among other roles.

The Saturday morning plenary session will feature a presentation by Bill Gradison. Bill Gradison was appointed by the Securities and Exchange Commission as a founding member of the Public Company Accounting Oversight Board, which was created by the Sarbanes-Oxley Act of 2002. He was unanimously reappointed to a full five-year term in August 2004, and served as Acting Chairman from December 2005 to July 2006. Before joining the PCAOB, Mr. Gradison was senior public policy counselor with the Washington, D.C., law firm of Patton Boggs from 1999 to 2002. He previously served as president of the Health Insurance Association of America for six years. Mr. Gradison held elective office for more than 30 years. Before being elected to the U.S. Congress from his hometown of Cincinnati, Ohio, he was a member of the Cincinnati City Council for 13 years, serving as Vice Mayor and Mayor. During his 18 years in Congress, from 1975 to 1993, Mr. Gradison was the ranking member of the House Budget Committee and the Health Subcommittee of the Committee on Ways and Means. Following a brief stint on the finance faculty of the Harvard Business School, Mr. Gradison began his career in public service in 1953, as Assistant to the Under Secretary of the Treasury in Washington, D.C. He subsequently was Assistant to the Secretary of Health, Education and Welfare before returning to Cincinnati as a general partner of a New York Stock Exchange listed firm. He also served as Chairman of the Board of the Federal Home Loan Bank of Cincinnati. Mr. Gradison received a B.A. from Yale University and an M.B.A. and a doctorate from the Harvard Business School.
This year's program will again include a pre-conference Audit Education Workshop on Thursday afternoon beginning at 1:00 PM. The purpose of this Workshop is to bring together audit educators and leaders from the accounting profession to discuss emerging issues related to audit education. This year's topic involves what may be the single most important theme of your personal effectiveness and the very cornerstone of the auditing profession—Integrity. Kari Granger, a Performance Consultant at SUNERGOS and formerly Assistant Professor at the United States Air Force Academy, will lead the Workshop, drawing on materials that she developed with Michael Jensen, Professor Emeritus at Harvard Business School. Kari provides an actionable pathway that participants can utilize in raising their personal levels of integrity and in reaping the many performance and quality-of-life benefits. These developmental aids are readily adaptable to the auditing classroom as well as post-graduate training. Additional classroom case materials for exploring integrity with students in the auditing classroom will be provided and discussed by both practitioners and audit educators. Accordingly, in addition to leaving participants with actionable steps to enhance their personal integrity, a key goal of the Workshop is to provide the means for educators to positively impact the next generation of entrants to the auditing profession. There is a $40 registration charge for this Workshop and pre-registration is required. If you have questions regarding the workshop you may contact Jack Krogstad (e-mail: JackKrogstad@creighton.edu) or the Mid-Year meeting Co-Chairs (e-mail: MYM2011@moore.sc.edu).

Thanks to the generous support of KPMG LLP, the 12th Annual Auditing Section Doctoral Consortium will be held on January 13th, preceding the Midyear meeting. The chair of this year’s Consortium is Kathryn Kadous. 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. There is a limit on the total number of students who can attend the Consortium, and a maximum of four students from any one university may attend. Applications will be accepted on a first-come, first-served basis via the registration forms on the Section's website. Students are advised to register early. For further information on the application process, please contact Kathryn Kadous via phone (404-727-4967) or email (kkados@emory.edu).

Make plans now to join us in Albuquerque next January!

Scott Vandervelde and Mike Wilkins

2011 Auditing Midyear Conference Co-Chairs
Committee News

Nominating Committee Results and Call for Nominations for Open Offices

Thanks to all who voted this Fall for the 2010/2011 Nominating Committee members. Per the Section by-laws, the Nominating Committee is comprised of the two most recent Past Presidents of the Section that are willing and able to serve and three Section members who are elected by the Section membership.

The Section voted for the following members to join Audrey Gramling and Urton Anderson (both past presidents of the Section) on the Nominating Committee: Tim Bell, Kay Tatum, and Mark Taylor. Congratulations to Tim, Kay and Mark and thank you for your willingness to serve the section.

The Nominating Committee is accepting nominations for officer candidates through November 15. The Nominating Committee will be preparing a slate of at least one candidate for two open offices - Vice President - Academic and Treasurer. Please send your nominations to Audrey Gramling at agramli1@kennesaw.edu. Self nominations are accepted and encouraged. Thank you for your participation in the Auditing Section.
Auditing Standards Board Update

Mark H. Taylor
Professor of Accountancy
Weatherhead School of Management
Case Western Reserve University
Cleveland, OH

The Auditing Standards Board (ASB) convened three meetings since the update that was included in the Summer edition of The Auditor's Report. The meetings were held June 21-24 in Atlanta, GA, July 26-29 in Chicago, IL and August 23-26 in Denver, CO. Further, the board has one more meeting schedule for 2010 toward the end of October. This update covers the board's work at all three of these meetings. The breadth of work covered at these summer meetings is significant and has important implications for practice. As has been typical of the meetings of the last couple of years, much of the agenda addressed aspects of the Clarity Project, which will soon be completed. The format of this update is modified from previous updates. The ASB is now preparing, approving and posting meeting highlights on the ASB website. Previous updates drew liberally from these highlights. As meeting highlights are now being posted, I will trim the ASB Updates for The Auditor's Report for detail, and tabulate the proposed SASs deliberated at the meetings, the Task Force Chairs who presented them, and the ASB's actions in regard to the proposed SASs. I may also include discussion on matters related to those standards that are of more than passing importance.

June 2010 Meeting

Table 1 presents, for the June 2010 meeting in Atlanta, the Proposed SASs, Task Force Chairs who presented the Proposed SASs, and outcomes of the deliberations.

<table>
<thead>
<tr>
<th>Proposed SAS</th>
<th>Task Force Chair</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Confirmations</td>
<td>Megan Zietsman</td>
<td>Voted to ballot as an exposure draft (ED).</td>
</tr>
<tr>
<td>Letters for Underwriters</td>
<td>Phil Wedemeyer</td>
<td>Voted to ballot as an ED.</td>
</tr>
<tr>
<td>Consideration of Fraud in a Financial Statement Audit*</td>
<td>Tom Stemlar</td>
<td></td>
</tr>
<tr>
<td>Opening Balances—Initial Audit Engagements, Including Reaudit Engagements**</td>
<td>Andy Mintzer</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Subsequent Events and Subsequently Discovered Facts</td>
<td>Sheila Birch</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Terms of Engagement</td>
<td>John Fogarty (represented by Ahava Goldman)</td>
<td>Remanded for changes to return to August 2010 Meeting to vote final.</td>
</tr>
</tbody>
</table>
**Written Representations**
John Fogarty (represented by Ahava Goldman)
Remanded for changes to return to August 2010 Meeting to vote final.

**Analytical Procedures**
Walt Conn
Remanded for changes to return to August 2010 Meeting to vote final.

**Forming an Opinion and Reporting on Financial Statements**
Dan Montgomery
Remanded for changes to return to August 2010 Meeting to vote final.

**Modifications to the Opinion in the Independent Auditor’s Report**
Dan Montgomery
Remanded for changes to return to August 2010 Meeting to vote final.

**Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report**
Dan Montgomery
Remanded for changes to return to August 2010 Meeting to vote final.

**Using the Work of an Auditor’s Specialist**
Phil Wedemeyer
Remanded for changes to return to August 2010 Meeting.

**Audit Evidence Specific Considerations for Selected Items**
Art Winstead
Remanded for changes to return to August 2010 Meeting.

*This final clarified SAS will be released when proposed SAS Written Representations is finalized as a clarified SAS in August 2010 in order to reflect the conforming amendment that is presented in Appendix 2 of proposed SAS Written Representations.

**The proposed SAS combines ISA 510 Initial Audit Engagements—Opening Balances and relevant content from AU 315 Communication Between Predecessor and Successor Auditors.

Thus, for the June meeting, two proposed SAS were voted to ballot as final standards, two were voted to ballot as exposure drafts, and the remaining eight were remanded for additional changes to return at the August 2010 meeting, most to consider changes and vote final. You can access the complete meeting highlights on the [ASB website](#).

**July 2010 Meeting**
Table 2 presents, for the July 2010 meeting in Chicago, the Proposed SASs, Task Force Chairs who presented the Proposed SASs, and outcomes of the deliberations.

<table>
<thead>
<tr>
<th>Proposed SAS</th>
<th>Task Force Chair</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communicating Internal Control Related Matters Identified in an Audit</td>
<td>Keith Newton</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>A Firm’s System of Quality Control</td>
<td>Sheila Birch</td>
<td>Remanded for changes to return to the August 2010 Meeting to vote final.</td>
</tr>
<tr>
<td>Quality Control for an Audit of Financial Statements</td>
<td>Sheila Birch</td>
<td>Remanded for changes to return to the August 2010 Meeting to vote final.</td>
</tr>
<tr>
<td>Related Parties</td>
<td>George Fritz</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Group Audits</td>
<td>Robert Dohrer</td>
<td>Remanded for changes to return to a future ASB meeting.</td>
</tr>
<tr>
<td>Audit Sampling</td>
<td>Robert Dohrer</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures</td>
<td>Megan Zietsman</td>
<td>Voted to ballot as final SAS.</td>
</tr>
</tbody>
</table>
Thus, at the August meeting, four of the proposed SAS were voted to ballot as final standards, and seven of the proposed SAS were remanded for additional changes to return at the August or October meetings, many for final vote. The meeting highlights are not yet posted on the ASB website; if you desire further detail, I am informed those highlights will soon be posted.

Some additional comment about proposed SAS, Restricting the Use of an Auditor's Report may be interesting. This additional commentary demonstrates the connection to the realities of contextual variables in practice that the ASB works very hard to be cognizant of, and to develop standards which account for such contextual variables. In the context of restricting the use of the auditor's report, the ASB discussed whether confusion exists between the concept of restricting the use of an auditor's communication and the concept of restricting its distribution.

- The term “restricted use” in the extant standard generally refers to the inclusion of language in a communication that informs a reader of the purpose of a communication and the basis for its preparation whenever these are not generally known or understood.
- However, although the extant standards are clear that an auditor cannot control the extent of physical distribution of a communication after its release, the extant standards do contain requirements regarding the language used in these communications, and that language is based on the anticipated extent of distribution of a communication.

Accordingly, the ASB directed the Task Force to consider developing a new term to replace the term “restricted use” to clearly communicate that the report or communication has been prepared to satisfy the objectives of a specific set of users (i.e., not general purpose users), that in some cases, the subject matter of the communication may have been prepared using a framework or criteria that is not known to persons other than the intended users; and that in some cases, the scope of the work performed by the auditor for purposes of developing the report or communication may not have been sufficient to provide a basis for an opinion.

The ASB also discussed whether the distinction between restrictions on use and restrictions on distribution should be made clearer in the proposed SAS. Such a clarification would not completely resolve the practice issue as regulatory agencies, in an effort to be transparent, make the reports public record. Thus, restricting the use of a report that will become public record is futile and inconsistent with the intent of the regulatory agency. Thus, restricted use language is meaningless when the reports are available to the general public. The ASB also discussed whether restricted use should instead be referred to as intended use or intended purpose. However, restricted use precludes non-specified parties from placing any reliance on the subject matter. If the ASB determines to move away from restricted use, the report language should include language that precludes reliance on the subject matter, either (1) by making clear that unless the reader understands the subject matter, he or she is precluded from placing reliance on such subject matter or (2) by restricting reliance to only those parties specified in the report. The final outcome of these deliberations will be discussed in a future ASB update.

August 2010 Meeting

Table 3 presents, for the August 2010 meeting in Denver, CO, the Proposed SASs, Task Force Chairs who presented the Proposed SASs, and outcomes of the deliberations.
<table>
<thead>
<tr>
<th>Proposed SAS</th>
<th>Task Force Chair</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consideration of Omitted Procedures After the Report Release Date</td>
<td>Sheila Birch</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Audit Evidence¾Specific Considerations for Selected</td>
<td>Art Winstead</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Using the Work of an Auditor’s Specialist</td>
<td>Phil Wedemeyer</td>
<td>Remanded for changes to return to a future ASB meeting.</td>
</tr>
<tr>
<td>Forming an Opinion and Reporting on Financial Statements</td>
<td>Dan Montgomery</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Modifications to the Opinion in the Independent Auditor's Report</td>
<td>Dan Montgomery</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</td>
<td>Dan Montgomery</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</td>
<td>Rob Chevalier</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Engagements to Report on Summary Financial Statements</td>
<td>Rob Chevalier</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Terms of Engagement</td>
<td>John Fogarty</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Written Representations</td>
<td>John Fogarty</td>
<td>Voted to ballot as final SAS.</td>
</tr>
<tr>
<td>Association With Financial Statements</td>
<td>Dan Montgomery</td>
<td>Remanded for changes to return to the October 2010 ASB meeting to vote final.</td>
</tr>
<tr>
<td>Consistency of Financial Statements</td>
<td>Dan Montgomery</td>
<td>Remanded for changes to return to the October 2010 ASB meeting to vote final.</td>
</tr>
<tr>
<td>Reports on Application of Requirements of an Applicable Financial Reporting Framework</td>
<td>Tom Ratcliffe</td>
<td>Remanded for changes to return to the October 2010 ASB meeting to vote final.</td>
</tr>
<tr>
<td>Alerting Readers as to the Intended Use of an Auditor’s Written Communication</td>
<td>Phil Wedemeyer</td>
<td>Remanded for changes to return to a future ASB meeting.</td>
</tr>
<tr>
<td>Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards</td>
<td>Sheila Birch</td>
<td>Voted to ballot as final SAS.**</td>
</tr>
</tbody>
</table>

*At the meeting, the ASB voted unanimously to ballot the SAS for either issuance as a final standard or re-exposure if re-exposure is considered necessary based on some changes made at the meeting. Subsequent to the ASB meeting, the staff, in consultation with the chair of the ASB, reached the conclusion that the proposed SAS does not require re-exposure. See additional comments in ASB Highlights on the ASB website when posted (soon).

** The ASB voted 18-1 to ballot the standard for issuance as a final standard. Andy Mintzer dissented to the issuance of the SAS because he believes that auditing standards should not include requirements or application guidance for engagement quality control reviewers (EQCR) as EQCR are not part of the audit engagement team and requirements and application guidance for EQCR are appropriately included in Statements of Quality Control Standards.
As indicated, at the August meetings, ten Proposed SAS were voted final, and five Proposed SAS were remanded to the respective Task Force for changes to be brought back to a future ASB meeting.

Final Comment

As can be seen by this update, the ASB maintained a very full agenda for the summer of 2010, and as a result the ASB is closing in on completing the Clarity Project. The ASB anticipates completing most of the project by the October 2010 meeting, though some pieces of the project may linger into 2011. Nonetheless, the ASB meeting schedule is contracting in 2011. Rather than six four-day meetings as has been the case for the last several years, the 2011 schedule has been reduced to four meetings, with only the January meeting being four days, and the other three meetings being three days. Like all previous meetings of the ASB, the remaining 2010 and the 2011 meetings are open to the public. If you have questions about any of the ASB’s activities, please contact me at mt@case.edu.
GAO Update

by Jeanette Franzel & Maxine Hattery

It's Comptroller General-Designate Gene Dodaro Now

In a GAO career dating back more than 30 years, Gene Dodaro has risen through the ranks, and now, as Acting Comptroller General of the United States, he has been nominated by President Obama to continue his service as Comptroller General.

Before his current position, Mr. Dodaro served 9 years as Chief Operating Officer, the number two leadership position at the GAO, and led the development of the agency's strategic plans for serving Congress and improving government in the 21st Century. He also played a key role in guiding the GAO's efforts to highlight, through its High-Risk series, current and emerging issues that warrant attention from policymakers.

Until 1999, Mr. Dodaro headed GAO's Accounting and Information Management Division, the agency's largest unit. While there, he directed the first-ever audit of the comprehensive financial statements covering all federal departments and agencies.

Over the years, Mr. Dodaro has worked closely with the Congress and several administrations on major management reform initiatives, including the 1994 Government Management Reform Act, which expanded the Chief Financial Officers Act; the revised 1995 Paperwork Reduction Act and the Clinger-Cohen Act of 1996, which require agencies to implement modern management practices for information technology management; and the 1996 refinements to the Single Audit Act. Mr. Dodaro also helped conceive GAO's strategy for strengthening computer security governmentwide and led the updating of standards for internal controls in the federal government.

Mr. Dodaro is a fellow of the National Academy of Public Administration, a member of the Association of Government Accountants, and has received recognition from many organizations including the National Public Service Award, the Roger W. Jones Award for Executive Leadership, and the Arthur S. Fleming Award for Outstanding Individual Performance in the Federal Government.

The Comptroller General, who serves a nonrenewable 15-year term, is appointed by the President with the advice and consent of the Senate. When a vacancy occurs in the office, Congress establishes a bipartisan commission of members to recommend individuals to the President. The commission must recommend at least three persons, and the President may ask Congress to recommend more. The President then nominates one of the recommended persons for confirmation by the Senate.

GAO Issues Exposure Draft of Revised Yellow Book

With the culmination of work since the 2007 revision, the time has come again for the accountability community to contribute its broad insight and weigh in on the next edition of generally accepted Government Auditing Standards, or GAGAS, also known as the Yellow Book. GAO invites comments from audit officials and financial management at all levels of government, the public
accounting profession, academia, professional organizations, public interest groups, and other interested parties.

The proposed revision will be the sixth since GAO first issued the standards in 1972. To help ensure that the standards continue to meet the needs of the audit community and the public it serves, the revisions are based on recommendations from GAO's Advisory Council on Government Auditing Standards, which includes experts in financial and performance auditing from federal, state, and local government, the private sector, public accounting, and academia.

The proposed changes reflect major developments in the accountability and audit profession and emphasize specific considerations applicable to the government environment. The major proposed changes were made to

- consolidate and reorganize the foundation and ethical principles for government audits and the standards for use and application of GAGAS (chapters 1 and 2),
- add a conceptual framework approach for independence (chapter 3),
- update the financial audit standards to (1) reflect recent updates to the auditing standards issued by the American Institute of Certified Public Accountants (AICPA), where applicable, (2) more clearly identify the GAGAS requirements and guidance that supplement AICPA requirements for financial audits, and (3) consolidate the financial audit standards into a single chapter (chapter 4),
- distinguish the requirements related to each type of attestation work (chapter 5),
- update the performance audit standards to (1) limit the fraud reporting requirement to occurrences that are significant within the context of the audit objectives, with a requirement to communicate other instances of fraud in writing to those charged with governance, and (2) revise the discussion of validity as an aspect of the quality of evidence (chapters 6 and 7), and
- clarify language throughout the document.

To ease review and comment on the standards, the draft is accompanied by a summary of major changes and a brief set of discussion points intended to elicit comment on particular issues.

The Yellow Book exposure draft and related information are available on the GAO Web site through the Yellow Book link on the Resources for the Auditing and Accountability Community page (http://www.gao.gov/govaud/ybk01.htm). Comments should be submitted by email to yellowbook@gao.gov by November 22.

International Auditor Fellowship graduation
Marking the end of an intensive 18-week training program, 22 members of the International Auditor Fellowship Program, Class of 2010, participated in a July 29 graduation ceremony with inspiration provided by the words of Acting Comptroller General Gene Dodaro and Juan M. Portal-Martinez, Auditor General of Mexico.

The class of 2010 included fellows from China, Gambia, Georgia, Hungary, India, Indonesia, Kazakhstan, Kenya, Kuwait, Nigeria, Rwanda, Samoa, Singapore, Swaziland, Tanzania, Trinidad and Tobago, Uganda, United Arab Emirates, Zambia, Zimbabwe,

The program is designed to strengthen the ability of supreme audit institutions to fulfill their missions and to enhance accountability and governance worldwide. In addition to classroom training, the 2010 class gained insights into accountability at all levels of government through visits to international organizations such as the World Bank; attendance at the National Intergovernmental Audit Forum, where they learned about the interrelationships between state and local auditors, and a visit to the Philadelphia controller's office, among other activities.

A key aspect of their training is the development of a strategy paper for disseminating what they have learned at GAO to their audit office colleagues at home. Topics for this year's class included evidence and documentation, performance auditing of
GAO Again Rated No. 2 on List of Best Places to Work in the Federal Government

For the third time, GAO was second on the 2010 list of best places to work in the federal government compiled by the Partnership for Public Service and the Institute for the Study of Public Policy Implementation at American University.

GAO's composite score of 81.6 (out of 100) placed it just 0.2 of a point behind the Nuclear Regulatory Commission among the 32 largest federal agencies included in the study. Other high-ranking agencies included the Federal Deposit Insurance Corporation, the Smithsonian Institution, and the National Aeronautics and Space Administration.

GAO also came in second in the 2007 and 2009 "best places" rankings, which were then issued biannually; in 2005, the first time GAO was included, it ranked fourth.

Now issued every year, the rankings are based on survey responses by about 263,000 employees, in 290 federal entities, on their satisfaction with their jobs, the organization, and whether they would recommend the organization as a good place to work.

The complete rankings of the best places to work in the federal government can be found on the Internet at www.bestplacetowork.org.

GAO in Your Pocket with Widgets

GAO has launched a simplified version of its external Web site that is compatible with small-screen mobile devices. Page layout and navigation were designed with an eye to easier and faster access to GAO products.

Type in GAO's main-site URL (www.gao.gov) on a mobile device, and the mobile version opens automatically. The searchable site also allows users to browse the latest GAO reports, testimonies, and legal decisions and opinions, and "In the Spotlight" presents recent hot topics pertaining to GAO's work.

Widgets

Share that on-point GAO report you just found with colleagues and friends using GAO sharing tools, or "widgets." The "Share/Save" link on the GAO Web site provides easy access to the 10 most popular sharing channels, including social networks (such as Facebook, Twitter, and MySpace), social bookmarking sites (Delicious), and content aggregators (Digg, Reddit). Users can also choose to e-mail a link of the report, or to save it by imbedding a link in a blog or Web site or saving it as a favorite on their browser.

With the widgets in place, the site now offers a daily tabulation of the top 10 downloaded, shared, and e-mailed products.

These new facilities join Twitter and YouTube at GAO. On Twitter, GAO announces the issuance of reports and press releases, and posts videos on YouTube related to its work, including the recruiting video, "More Than Numbers." Earlier this year, GAO began posting audio podcasts of interviews with GAO officials on significant issues and new reports.
Introduction

This update addresses selected PCAOB developments that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed include: the announcement of the inaugural academic fellow for 2010-2011; the staff audit practice alert regarding using the work of other auditors and engaging outside assistants; the proposed auditing standard on confirmation; the new auditing standards on risk assessment; the release on failure to supervise; the PCAOB staff to develop a proposal to make certain enforcement proceedings public; the roundtable on the proposed standard regarding communications with audit committees; the report on inspection observations of auditing during the economic crisis; and two meetings of the PCAOB's Standing Advisory Group.

June 2010

Inaugural Academic Fellow: The PCAOB named Professor Michael Stein as its inaugural academic fellow on June 15, 2010. Dr. Stein's fellowship began on July 26, 2010 for a term of 12 months.

Dr. Stein has been assigned to the Office of Research and Analysis (ORA) for the academic year 2010-2011. ORA identifies and analyzes emerging accounting and auditing issues, and other risk areas that may contribute to audit failures. Dr. Stein will provide analytical support and expertise to ORA and other PCAOB staff and undertake projects in support of both the Board's strategic plan and ORA's work plan. Such projects may include research on accounting and auditing matters, risk-assessment research, and other research and work relating to PCAOB activities.

July 2010

Staff Audit Practice Alert No. 6: The PCAOB issued Staff Audit Practice Alert No. 6, Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm, on July 12, 2010, to remind registered firms of their obligations when using the work of other firms or using assistants engaged from outside the firm. The alert was prompted by observations in PCAOB inspections that some U.S.-based firms issuing audit reports based on work performed by others outside the United States are not properly applying PCAOB standards.

The alert describes the circumstances in which the firm issuing the audit report may use the work and reports of another auditor. It also notes that auditors who engage assistants from outside the firm are governed by the same standards regarding planning the audit and supervising assistants that apply when audit work is performed by assistants who are partners of, or employed by, the auditor's firm.
Proposed Auditing Standard on Confirmation: On July 13, 2010, the PCAOB approved for public comment a proposed auditing standard, Confirmation. The proposed standard would strengthen the requirements under the current auditing standard, AU sec. 330, The Confirmation Process, and would replace AU sec. 330. The proposed standard would modernize the confirmation standard and strengthen its requirements to better protect investors. It would also more explicitly incorporate consideration of the risk of material misstatement due to error or fraud into the selection, design, and performance of confirmation procedures. The comment period on the proposed standard ended on September 13, 2010.

A copy of the proposed standard and related concept release and comment letters can be found on the PCAOB Website at: http://pcaobus.org/Rules/Rulemaking/Pages/Docket028.aspx.

Standing Advisory Group (SAG) Meeting: The Board's SAG held its second meeting of the year on July 15, 2010. The meeting included a presentation on projects of the Financial Accounting Standards Board and International Accounting Standards Board relating to potentially significant developments affecting U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. The SAG discussion focused on the potential effect of these changes upon auditors of public companies.

The meeting agenda also included a discussion of standard-setting issues pertaining to the audits of broker-dealers. In addition, PCAOB staff updated the SAG on comments received on a proposed standard on communications with audit committees and sought input from the SAG regarding a standard-setting project that addresses audit requirements for subsequent events. The PCAOB staff also presented a possible approach to standard-setting projects pertaining to the auditor's reporting model.

The meeting agenda, briefing papers, and meeting webcast can be found on the PCAOB website at: http://pcaobus.org/News/Events/Pages/07152010_SAGMeeting.aspx.

August 2010

New Auditing Standards on Risk Assessment: On August 5, 2010, the PCAOB adopted a suite of eight auditing standards related to the auditor's assessment of, and response to, risk in an audit. The risk assessment standards, Auditing Standards Nos. 8 through 15, set forth requirements that enhance the effectiveness of the auditor's assessment of, and response to, the risks of material misstatement in the financial statements. In addition, these standards address audit procedures performed throughout the audit, from the initial planning stages through the evaluation of the audit results.

These risk assessment standards supersede six PCAOB interim standards and related amendments: AU sec. 311, Planning and Supervision; AU sec. 312, Audit Risk and Materiality in Conducting an Audit; AU sec. 313, Substantive Tests Prior to the Balance Sheet Date; AU sec. 319, Consideration of Internal Control in a Financial Statement Audit; AU sec. 326, Evidential Matter; and AU sec. 431, Adequacy of Disclosure in Financial Statements.

The standards, if approved by the Securities and Exchange Commission (SEC), will become effective for audits of fiscal years beginning on or after December 15, 2010.

The PCAOB is considering whether specific rules would further the public interest and protect investors by increasing clarity about who, within a firm, is accountable for various responsibilities that bear on the quality of a firm's audits. The PCAOB is soliciting public comment on the concepts discussed in Part II of the release. The comment period on the release ends on November 3, 2010.


Proposal to Make Certain Enforcement Proceedings Public: On August 5, 2010, PCAOB Acting Chairman Daniel L. Goelzer directed PCAOB staff to develop a proposal to send to Congress to request that it consider a change to the Act that would enable the PCAOB's disciplinary hearings and related proceedings to be made public.

Currently under the Act, these hearings and proceedings are required to be nonpublic unless the Board finds good cause to make them public and all parties consent to open them to the public. Public disciplinary hearings would conform to the long-standing practice at the SEC for public disciplinary hearings on matters regarding auditors.

Under current law, firms and auditors litigating with the PCAOB have little incentive to consent to public proceedings and can prevent proceedings from becoming public for long after the information would be most relevant to investors, other auditors, and interested parties.

September 2010

Roundtable on Communications with Audit Committees: The PCAOB hosted a public roundtable regarding its proposed standard on auditors' communications with audit committees on September 21, 2010. In light of the roundtable, the Board reopened the comment period on the proposal until October 21, 2010. The roundtable participants included audit committee members, investors, auditors, issuers, and others.

The recorded webcasts, transcripts, and related briefing papers for this roundtable can be found on the PCAOB Website at: http://pcaobus.org/News/Webcasts/Pages/09212010_Roundtable.aspx.

Report on Inspection Observations of Auditing during the Economic Crisis: On September 29, 2010, the PCAOB released a report summarizing inspection observations of audits of financial institutions and other companies during the economic crisis. The Board issued the report to inform the public about the audit risks and challenges identified through its inspection program as a result of the disruption in credit and financial markets and the broader economic downturn.

The report covers aspects of PCAOB inspections conducted during the 2007 through 2009 inspection cycles, which generally involved reviews of audits of issuers' fiscal years ending in 2006 through 2008. The majority of the inspection observations discussed in this report were identified by inspectors during the 2009 inspection cycle and were included in 2009 inspection reports that the Board issued in 2010.

A copy of the report can be found on the PCAOB Website at: http://pcaobus.org/Inspections/Pages/PublicReports.aspx

October 2010
Standing Advisory Group Meeting: The Board's SAG held its third and final meeting of the year on October 13-14, 2010. The SAG agenda included a discussion of the Office of Chief Auditor's standard-setting agenda and other developments affecting the work of the PCAOB. The SAG also discussed potential improvements to the Board's quality control standards, as well as the PCAOB's recently issued Report on Observations of PCAOB Inspectors Related to Audit Risk Areas Affected by the Economic Crisis (previously highlighted).

In addition, the SAG continued its July 15 meeting discussion on potential challenges to auditing that may result from accounting changes to U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards being considered by the Financial Accounting Standards Board and the International Accounting Standards Board.

The SAG's input also was sought on approaches to rulemaking that would complement the Board's authority to impose sanctions for supervision failures, as discussed in the Board's August 5, 2010 release, Application of the "Failure to Supervise" Provision of the Sarbanes-Oxley Act of 2002 and Solicitation of Comment on Rulemaking Concepts (previously highlighted). An update on comments received on the Board's proposed standard on confirmation also was presented. Finally, the staff presented an overview of key provisions of the Board's recently adopted auditing standards on the assessment of, and response to, risk.

The meeting agenda, briefing papers, and meeting webcast can be found on the PCAOB website at: http://pcaobus.org/News/Events/Pages/10132010_SAGMeeting.aspx.

The next meeting of the SAG is scheduled for March 23-24, 2011.

* Martin F. Baumann is PCAOB Chief Auditor and Director of Professional Standards. Gregory Scates is PCAOB Deputy Chief Auditor. Dima Andriyenko is PCAOB Associate Chief Auditor.
“Ethical Dilemmas in Auditing: Dishonesty or Unintentional Bias?”

This paper applies Moral Seduction Theory to evaluate the extent that compromised audits result from unintentional biases rather than dishonesty. The authors argue that regulatory approaches to promoting audit quality are limited in addressing true sources of auditor’s biases. Using a sample of eighty experienced auditors from international accounting firms, the authors use Moral Seduction theory to test auditors’ unintentional reluctance to issue qualified audit opinions that could precipitate client bankruptcy. The authors assert that more regulatory effort should be made in monitoring these types of conflicts of interest to reduce unintentional bias.

“Corporate Fraud and the Audit Expectations Gap: A Study Among Business Managers.”

This paper examines the audit expectations gap concerning the role of the auditor in corporate fraud cases. The study assesses the significance of a reasonableness gap, a deficient performance gap and a deficient standards gap in the context of corporate fraud. The subjects were three groups of business managers, with a control group of bankers – all of which were located in the Netherlands. Subjects were given a questionnaire containing several statements about the definition and scope of fraud and auditors’ responsibilities concerning fraud and were asked to indicate their level of agreement with these statements. Results indicate a substantial expectations gap in the context of fraud, both with respect to the auditor’s performance, as well as the auditor’s formal obligations as laid down in the existing standards. Relative to bankers, business managers were less inclined to judge auditors’ performance of existing duties as inadequate.

“The Effects of Task Complexity and Skill on Over/Under-Estimation of Internal Control.”

This paper aims to examine the effects of skill level and the two task complexity dimensions – clarity and quantity of information – on subjects' internal control risk assessments. It uses a 2x4 mixed factors laboratory experiment. This design allows the effects of task complexity and skill between and within subjects to be examined. The mixed factors design includes two levels (high and low) for each dimension of task complexity (clarity and quantity) on a between-subjects basis, with four separate cases on a within-subjects basis. Skill level is measured as the subject's task-related knowledge. In general, subjects assess control risk too high, consistent with the conservatism principle. Skill level mediates this finding: high-skill subjects make more accurate risk
assessments; low-skill subjects consistently assess control risk too high. Over repetitions of complex tasks, high-skill subjects make more accurate assessments, while low-skill subjects initially overstate, then improve. For repetitive simple tasks, both skill levels get worse, increasingly overstating their assessments. These findings support current practice, indicating that experienced auditors make complex risk assessments, where repetitive performance of complex tasks improves risk assessments. However, repetitive simple tasks may result in assessing control risk too high, resulting in excessive testing.


Securities regulators around the world are considering the costs and benefits of alternative policies for providing information to financial markets on corporate internal control. In this spirit, the authors examine the association of relative auditor involvement and auditor characteristics with Section 302 internal control disclosures made by US ‘non-accelerated filers’ from 2003 to 2005. We find more material weaknesses disclosed in the fourth quarter, when there is relatively more auditor involvement, relative to the first three quarters. Clients of larger audit firms have higher disclosure rates (although they are probably less risky due to more stringent client acceptance standards), but this difference is due to fourth quarter disclosures. Audit firms with Section 404 experience also have greater material weakness disclosure, implying process improvement associated with knowledge sharing across engagements.

“Does Increased Audit Partner Tenure Reduce Audit Quality?”

Using data obtained from actual audits by multiple U.S. offices of three large international audit firms, this study examines whether there is a relationship between evidence of reduced audit quality, measured by estimated discretionary accruals, and audit partner tenure with a specific client. The authors document that estimated discretionary accruals are significantly and negatively associated with the lead audit partner’s tenure with a specific client. Thus, audit quality appears to increase with increased partner tenure. After controlling for client size and engagement risk, we find audit partner tenure significantly and negatively associated with estimated discretionary accruals only for small clients with partner tenure of greater than seven years, regardless of risk level. We also find that tenure is not significantly associated with estimated discretionary accruals for large clients. This suggests that as partner tenure increases, auditors of small client firms become less willing to accept more aggressive financial statement assertions by managers, and that partner tenure does not affect audit quality for large clients or for shorter-tenure smaller clients.
"Have You Seen These Instructional Resources?"

By the 2010-2011 Education Committee of the Auditing Section of the AAA

Jay Rich, Co-Chair – Illinois State University
Jason MacGregor, Co-Chair – Baylor University
Mark Peecher – University of Illinois
Paul Polinski – University of Illinois
Richard Riley - West Virginia University
Ray Whittington – Depaul University

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<td>PCAOB Staff Directed to Develop Proposal to Ask Congress to Make Public Disciplinary Hearings and Related Proceedings</td>
<td>8 / 5 / 2010</td>
<td>PCAOB website</td>
<td>PCAOB announcement of a request to be made to Congress to alter the Sarbanes-Oxley Act to provide public access to Disciplinary hearings.</td>
<td><a href="http://pcaobus.org/News/Releases/Pages/08052010_PublicDisciplinaryHearings.aspx">http://pcaobus.org/News/Releases/Pages/08052010_PublicDisciplinaryHearings.aspx</a></td>
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<td>Web Document</td>
<td>Grant Thorton calls for auditor cap</td>
<td>9 / 29 / 2010</td>
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<td>Grant Thorton urges regulation to protect against Big Four failure due to market concentration</td>
<td><a href="http://www.camagonline.co.uk/News/4579.aspx">http://www.camagonline.co.uk/News/4579.aspx</a></td>
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<td>Text</td>
<td>Forensic Accounting and Fraud Examination</td>
<td>2011</td>
<td>Text by Mary-Jo Kranacher, Richard Riley and Joseph Wells</td>
<td>This text was compiled as a result of the author’s professional experiences combined with auspicious interactions with the 46 subject matter experts from the NIJ project: &quot;Education and Training in Fraud and Forensic Accounting.&quot;</td>
<td>Wiley (ISBN: 978-0-470-43774-2)</td>
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<td>White Paper Report</td>
<td>Detering and Detecting Financial Reporting Fraud: A Platform for Action</td>
<td>10 / 6 / 2010</td>
<td>Center for Audit quality (CAQ)</td>
<td>In 2009, the Center for Audit Quality (CAQ) convened five roundtable discussions with more than 100 participants, followed by more than 20 indepth interviews, in order to</td>
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<td>capture perspectives on fraud deterrence and detection measures that have worked and ideas for new approaches. The observations in this report are derived from those discussions and interviews</td>
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Call for Papers – ISAR 2011
17th Annual International Symposium on Audit Research
Québec City, Canada | 13 and 14 June, 2011

About the Symposium

The 17th annual International Symposium on Audit Research (ISAR) will be hosted by Université Laval and held on June 13 and 14, 2011 in Québec City, Canada. ISAR is jointly organized by the University of Southern California (USA), Maastricht University (Netherlands), the University of New South Wales (Australia) and Nanyang Technological University (Singapore). The symposium will be held at the Château Laurier, Québec City.

Scope of Topics

The scope of ISAR is intended to be broad and includes research papers and panels that deal with economic and behavioral aspects of auditing, attestation and assurance. Papers that utilize any of a broad range of research methodologies will be considered. General topics of interest include research relevant to practice issues such as providing assurance services, litigation, regulation and international matters. Judgment and decision making topics can include any aspect relating to auditor behavior, such as financial and social incentives, cross-national differences in audit judgments, risk-based audit planning, decision aids, alternative models of evidential reasoning and expertise. Economic-based topics can include national and international issues relating to regulation of audit and assurance services markets, audit quality, auditor choice, and auditor service production.

Submission of Papers

To be eligible for presentation, manuscripts must follow the style guidelines of a major audit research journal such as Auditing: A Journal of Practice & Theory. Please pay particular attention to the length requirements – most journals restrict the body of the manuscripts to 20-25 double-spaced pages. Please submit a single document which includes a title page listing author(s) affiliation(s) and the contact author’s email address. Accepted papers will not be published in formal proceedings and thus may be submitted to any appropriate journal for publication. Papers that have been accepted for publication should not be submitted.

Paper Submission deadline and Requirements

Papers should be submitted electronically in Adobe Acrobat or Word formats. Papers and, where appropriate, related research instruments must be received no later than 31 January 2011, and should be sent to: papers@isarhq.org.
Further Information

If you have questions about paper submission please email to papers@isarhq.org. For questions about the symposium please contact Jean Bédard at jean.bedard@ctb.ulaval.ca or Ted Mock at tmock@ucr.edu. Further information is also posted at the ISAR website at www.isarhq.org where you can also register for email updates on ISAR 2011.