I hope this finds you well and enjoying the fall, though it seems to be moving at an incredible pace! I am pleased to be writing my first letter for the Auditor’s Report, as it has given me a chance to reflect on the activities of the section and appreciate all that is going on.

I first want to thank all of you who graciously agreed to share your time and expertise by being involved with the section. When I asked last spring, over 90 of you agreed to serve on committees, task forces, and in other roles, and the enthusiasm you demonstrated when I made those requests was very humbling. I know how busy everyone is, so the resounding willingness to serve your colleagues and the profession is remarkable.

It is an exciting time to be associated with auditing, auditing research and auditing education; auditing scholarship seems to be healthy and thriving and making a difference. I think of the section as an important factor in making all of our scholarly pursuits more productive so we can continue to have an impact. I will try to describe the ways that is done by discussing what I call “paths to engagement” – ways you can participate in the activities of the section.

Paths of Engagement

Midyear Conference

Linda Myers and Jackie Hammersley are organizing our Midyear Conference to be held January 18th-19th in New Orleans. Last year’s conference set an attendance record, and because of the steady growth in attendance in recent years, we purposefully increased the number of research paper sessions in each time slot of next year’s conference. We hope the increase in the number of papers in the program provides even more opportunity to engage in discussions about research in progress.

We are hosting two speakers for the plenary sessions who promise to provide insight into the profession. Jeanette Franzel, the newest board member of the PCAOB, is speaking on Friday morning. Many members know Jeanette from her interactions with the section when she was at the GAO, and are not surprised she has already become an important voice on regulatory matters being considered by the Board. Francine McKenna is speaking on Saturday morning. Francine is a freelance writer and CPA with articles on the profession in the
Financial Times, Forbes.com, American Banker, and other media outlets, and runs the specialized on-line news site about the business of the Big Four audit firms, “re: The Auditors.” Their perspectives on the challenges faced by the profession and responses to those challenges should provide plenty of topics to debate!

The Audit Education Workshop is Thursday afternoon preceding the conference. Participants will work with a new fraud case being provided by the CAQ, FEI, NACD, and The IIA. A facilitator will lead the group through the case in a simulated classroom setting, and then use that experience as a basis for discussion about case instruction and how to improve case teaching effectiveness. The case being used will be available to all interested instructors by the time of the conference, but this intensive exposure in the workshop should prepare attendees to incorporate the case in their courses immediately.

Finally, the Doctoral Consortium will be held just before the conference. Once again, applications for attendance far exceeded the number we can invite. Robert Knechel and the planning committee instituted a selection process this year to help ensure benefits of the Consortium will extend to as broad of a group of young auditing scholars as possible during their doctoral programs. This event is always a great success and we benefit from having so many doctoral students then attend the Midyear Conference.

We thank the KPMG Foundation for financial support of our Midyear Conference and Doctoral Consortium, and are very fortunate to have had such a productive and supportive relationship with the Foundation for so many years.

Audit Educator Bootcamp
We will host another Audit Educator Bootcamp in June, 2013. This popular event provides new and current audit instructors the opportunity to learn from practitioners and academic colleagues about the current practice of auditing and best teaching practices. We limit attendance at the Bootcamp each year, despite the excess demand, to make sure the educational benefit is maximized; we believe the discussions of auditing topics with practitioners, the review of training materials provided by the firms, and the teaching expertise shared by colleagues are all best-served by maintaining a relatively small group of attendees. Look for more information about the Bootcamp soon.

Committee activities

- The Education and Research Committees will continue to host webinars over the coming months. Watch for details to be announced throughout the year. These webinars, as well as webinars from prior years, can be accessed from the section’s homepage on the AAA Commons.
- The effort to fully implement our Research Summary Database continues to produce progress. Our objective is to provide summaries of auditing research that can inform a broad community of users about our research, its implications and how it is relevant.
- One of the consistent challenges I have provided to the Chairs of section committees has been to innovate in terms of how we can provide value to section members. Providing educational resources – videos, written materials, pedagogical tools, etc. – is one way to do that. Several committees are working on how to implement ideas that could leverage contributions in one
setting to be applied more generally. For example, we hope the annual meetings held by each of the regions might benefit from panel session ideas or specific presentations that we enjoy at our Midyear Conference; with the initial planning and implementation work already completed in the process of preparing for a panel at our meeting in January, we hope we can figure out ways through technology or other means to provide some of that content to those planning the region meetings.

I hope this review helps you think of ways you can engage with section activities and how you might be able to take advantage of some of the activities the section undertakes.

**Consideration of journal name change**

The Executive Committee has decided not to pursue changing the title of the section’s journal. Last spring, 347 section members responded to a survey conducted by the ad hoc task force on this issue. Responses were nearly evenly divided on whether or not to remove the word “Practice” from the journal title, though a plurality of responses opposed the change. Strong arguments for and against the change were provided, along with many useful insights. Importantly, the responses indicated a consensus that a title change would have little or no effect on how the journal is valued within academia. The responses also indicated a strong sentiment that the title is consistent with the stated purpose of the journal, and unless the decision would be made to change the stated purpose, there did not seem to be strong support to change the title.

This is a very healthy debate and it is good to have gone through a rigorous process to examine the issue of a title change. I think we have every reason to believe the quality of the journal continues to increase, and that publishing in the journal becomes more competitive each year. The improved research impact factor provides some evidence of that, along with the consistent increase in submissions each year.

**AAA Council**

Audrey Grambling is the section’s representative on the AAA Council, and is a great representative of the section in that role. As a non-voting member of the Executive Committee, Audrey participates in our meetings and correspondence so she is current on all section activities and can keep us informed of relevant AAA issues. I encourage you to contact me or Audrey with any questions about the Council, the section’s involvement with the Council, or broader issues that might be relevant to AAA leaders. My observation is that this revised governance structure is already increasing the connectedness of the sections with AAA and with each other, and I think this will only increase in the future.

Good luck in the rest of 2012, and I look forward to seeing many of you in New Orleans in the new year!
PCAOB Update — Fall 2012

Martin F. Baumann, Chief Auditor, PCAOB
Gregory Scates, Deputy Chief Auditor, PCAOB
Dima Andriyenko, Associate Chief Auditor, PCAOB

Introduction

This update addresses selected PCAOB developments since the Spring 2012 update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed include:

- Cooperative Agreement with Spanish Regulator
- PCAOB Release Concerning the Inspection Process
- PCAOB Auditing Standard No. 16, Communications with Audit Committees, and Related Amendments to Other PCAOB Standards
- PCAOB Report on the Interim Inspection Program for Broker and Dealer Auditors
- PCAOB Third Public Meeting on Auditor Independence and Audit Firm Rotation
- Annual International Auditor Regulatory Institute
- PCAOB Standing Advisory Group Meeting

July 2012

Cooperative Agreement with Spanish Regulator: On July 19, 2012, the PCAOB announced a cooperative agreement with the Accounting and Auditing Institute (Instituto de Contabilidad y Auditoría de Cuentas, or ICAC) of Spain relating to the oversight of audit firms subject to the regulatory jurisdictions of both regulators. In addition to providing a framework for conducting joint inspections, the arrangement includes provisions governing the exchange of confidential information between the ICAC and the PCAOB, consistent with certain provisions of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

August 2012

PCAOB Release Concerning the Inspection Process: On August 1, 2012, the PCAOB issued a release to provide information to audit committees about its inspection process and to better equip them to engage in meaningful discussion with PCAOB-registered audit firms about the results of inspections.

The release provides information about the meaning and significance of PCAOB inspection findings in the context of both engagement reviews and quality control reviews. The release also suggests some specific approaches that an audit committee might consider for initiating or enhancing inspection-related discussions with an audit firm.

A copy of the release is available on the PCAOB web site at:

http://pcaobus.org/Inspections/Documents/Inspection_Information_for_Audit_Committees.pdf

PCAOB Auditing Standard No. 16, Communications with Audit Committees, and Related Amendments to Other PCAOB Standards: On August 15, 2012, the PCAOB...
adopted Auditing Standard No. 16, *Communications with Audit Committees*, and amendments to other PCAOB standards. The standard establishes requirements that enhance the relevance and timeliness of the communications between the auditor and the audit committee, and is intended to foster constructive dialogue between the two on significant audit and financial statement matters.


A copy of the adopted standard and related amendments is available on the PCAOB web site at:


**PCAOB Report on the Interim Inspection Program for Broker and Dealer Auditors:** On August 20, 2012, the PCAOB released its first report on the progress of the interim inspection program for auditors of brokers and dealers, providing an overview of the new program and the audit deficiencies identified in the initial group of inspected audits of brokers and dealers.

In this first look, carried out over a five-month period from October 2011 to February 2012, PCAOB inspectors reviewed 10 audit firms covering portions of 23 audits of brokers and dealers registered with the SEC, and identified deficiencies in all of the audits inspected. The audits inspected were required to be conducted under generally accepted auditing standards issued by the AICPA, and not under PCAOB standards.

The interim inspection program was implemented in 2011 in response to new oversight authority given to the Board over auditors of brokers and dealers registered with the SEC by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The program is currently designed to cover a cross-section of audits of SEC-registered brokers and dealers. The Board will continue the interim inspection program until new rules for a permanent program are adopted and become effective.

A copy of the report is available on the PCAOB web site at:


**October 2012**

**PCAOB Third Public Meeting on Auditor Independence and Audit Firm Rotation:** On October 18, 2012, the PCAOB held its third public meeting on ways to enhance auditor independence, objectivity, and professional skepticism, including through mandatory rotation, or term limits, for audit firms. Panelists at the meeting, which was held in Houston, TX, included academics, investors, audit committee members, corporate officers, auditors, and other interested parties.

The list of panelists, meeting webcast, and transcript can be found on the PCAOB web site at:


**November 2012**

**Annual International Auditor Regulatory Institute:** On November 5-7, 2012, the PCAOB hosted nearly 80 representatives of auditor oversight bodies from 37 foreign jurisdictions at its sixth annual International Auditor Regulatory Institute.
The Institute afforded participants the opportunity to learn about PCAOB audit oversight programs, international inspection considerations, and current topics in enforcement and standard setting. Participants also exchanged views on a variety of issues that have an impact upon the oversight of auditors around the world. The program included a panel of officers of the International Forum of Independent Audit Regulators that described the organization's strategy and programs. Also on the program were a panel of PCAOB Board Members discussing their domestic and international priorities, and a panel of foreign inspectors describing their experiences in joint inspections with the PCAOB.

**PCAOB Standing Advisory Group (SAG) Meeting:** On November 15-16, 2012, the Board's SAG held its second meeting of the year. The meeting agenda included: an update from Chairman Doty on PCAOB developments; an update from the Office of the Chief Auditor (OCA) on its standard-setting agenda; and discussions led by OCA staff on (1) a potential approach to the auditor's reporting model related to emphasis paragraphs, and (2) consideration of engaging in outreach and research regarding the auditor's approach to detecting fraud.

The meeting materials, including the agenda, briefing papers, slides, and meeting webcast and podcast can be found on the PCAOB web site at: [http://pcaobus.org/News/Events/Pages/11152012_SAGMeeting.aspx](http://pcaobus.org/News/Events/Pages/11152012_SAGMeeting.aspx).
GAO Update — Fall 2012

Steve Sebastian, Director, GAO
Maxine Hattery, Director, GAO

And Show Me How It’s Spent

Comptroller General Gene Dodaro had a good-news story to tell at a congressional hearing, "Show Me the Money: Improving the Transparency of Federal Spending," held by the Senate Committee on Homeland Security and Governmental Affairs. Mr. Dodaro spoke about two federal government Web sites that had marked progress in transparency.

USAspending.gov was the product of “pioneering legislation,” Mr. Dodaro said. The Office of Management and Budget (OMB), set up the Web site and has already acted on some of GAO’s recommendations for improvement. Subaward data is now available on the site. And accountable officials have been designated at each agency as part of a quality assurance framework.

Mr. Dodaro acknowledged OMB’s success in setting up the Recovery Act Web site “within a 30-day period of time on a national scale with thousands of recipients receiving the money.” The act, he said, introduced “novel concepts” in information reporting in addition to those introduced by USAspending.gov. Notably, the act provided for recipients to report their own award data directly rather than through the granting agency.

Training was provided to grant recipients and particularly helped organizations that had not previously reported to the federal government. Nevertheless, for a time, some recipient information was found to be in conflict with the federal agencies’ information. The agencies began reviewing the data, and data quality improved, Mr. Dodaro said. In addition, federal agencies learned that they could enter some information in templates for the recipients, thus relieving some of their data-entry burden.

OMB and the Recovery Board were quick to implement GAO’s recommendations for correcting initial data-quality problems, Mr. Dodaro said. “We had a very good working relationship with them,” he said. “And the information began to improve.”

Mr. Dodaro concluded that there are many opportunities to build on the lessons learned from the Recovery Act and USAspending.gov in broadening the information available to the public and increasing its transparency. He also said that a premium should be placed on the quality and reliability of the information. “We could make a lot of information available,” he pointed out, “but if it's not reliable and accurate, it doesn't really serve the American people well and it doesn't serve policymakers and other decision makers well.” He said that GAO will continue to focus on efforts to ensure the quality of information.

Unpaid Taxes: Report Them to the Credit Bureaus?

Millions of individuals and businesses owe billions of dollars in unpaid federal tax debts, and the IRS expends substantial resources trying to collect these debts. To ensure that the debts are valid and due process is followed, enforcement programs are required by law to provide a taxpayer with multiple notices and opportunity to provide information before the estimates become assessed tax debt.

To protect taxpayer privacy, long-standing federal law prevents IRS from directly reporting tax debts to credit bureaus, except in limited, specified circumstances. IRS may file liens on some tax debts, and such liens are public records that are picked up by credit bureaus and included in the credit history information they compile.

Should IRS be allowed to directly report tax debts to credit bureaus? Would it encourage prompt payment? For a better understanding of these questions, congressional requestors asked GAO to describe IRS’s tax debt inventory, including characteristics relevant to debt reporting, and to identify factors that could be useful to consider in evaluating any such proposal.

GAO found that IRS reported $373 billion in federal unpaid tax debts—$258 billion in individual debt and $115 billion in business debt. Most of debts were relatively small in size. Well over half of individuals and businesses with tax debts owed less than $5,000. However, much of the aggregate debt is concentrated among those owing relatively large amounts. According to IRS records, debts over $25,000 add up to a total of $310 billion.

Some debts were in the collection process and subject to dispute by the taxpayer, while other debts were covered by installment agreements—according to IRS records, about $60 billion of the debts owed were in these two categories. IRS has classified about $110 billion of the total debt as uncollectable. Cutting across the above categories, over half the total amount owed was subject to the liens IRS is allowed to file on some tax debt.

Subject matter specialists GAO consulted identified issues of data accuracy, alternatives, and expected benefits among factors that Congress might wish to consider. Because tax liens are already known to credit bureaus, some specialists said that it would be important to consider IRS’s current use of them as an alternative. While increased revenue collection and decreased debt inventory were seen as benefits, the National Taxpayer Advocate—who is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue—cautioned that such reporting could cause some taxpayers to choose not to file or file inaccurately.


The President's Health Care Plan: Informing the Debate

The share of employers offering health coverage has generally declined in the last decade. Researchers believe that certain provisions of the Patient Protection and Affordable Care Act (PPACA) could affect employers' willingness to offer health coverage. Researchers have provided various estimates of the effect, and GAO was asked to review this research.

GAO’s review included 19 employer surveys and 5 microsimulation models. The microsimulation models—which estimate the net effect on individuals—predicted changes within the first 2 years that ranged from a net decrease of 2.5 percent to a net increase of 2.7 percent. Two studies also indicated that the majority of persons losing employer-sponsored coverage would transition to other sources of coverage. In contrast to the microsimulation studies, most employer surveys—which measured the percentage of employers that may drop coverage—expected 10 percent of employers or fewer to drop coverage, though estimates ranged from 2 to 20 percent. Most surveys were of employers currently offering coverage; however, 3 that did found that
between 1 and 28 percent planned to begin offering coverage as a result of PPACA.

John Dicken, Director of GAO’s Health Care team, said in an August radio interview that he expects the issue of health care reform to be taken up after the presidential elections. GAO did not provide any specific recommendations, he said, but “we hope that our report can provide some evidence to help inform the debate.”


**Related Reports—**

*Medicaid Expansion: States’ Implementation of the Patient Protection and Affordable Care Act, [GAO-12-821](http://www.gao.gov/products/GAO-12-821), August 1, 2012.*

*Survey on States’ Implementation of the Patient Protection and Affordable Care Act, an E-supplement to GAO-12-821, [GAO-12-944SP](http://www.gao.gov/products/GAO-12-944SP), August 1, 2012.*

**Fellows Program Tops 500 Graduates**

Twenty-one auditors from 17 countries received certificates of fellowship on July 26 for their participation in GAO’s 2012 International Auditor Fellowship Program, bringing the number of graduates since the program’s inception 33 years ago to 504 participants from 104 countries.

The graduation ceremony marks the culmination of 4 intensive months of training designed to strengthen the ability of supreme audit institutions to fulfill their missions and to enhance accountability and governance worldwide. This includes classroom training in performance auditing and GAO’s accountability framework. Fellows also gain insights into accountability at all levels of government through visits to international organizations such as the World Bank and attendance at the National Intergovernmental Audit Forum.

Speaking to the graduating fellows, Comptroller General Gene Dodaro encouraged them to “take what you have learned here, transfer that knowledge and experience to your respective audit offices, and continue to strive for excellence in accountability.” Fellow Nyasha Magadza of Zimbabwe, in her graduation address, echoed Mr. Dodaro’s advice and thanked GAO, saying that the fellows will “ever remember the importance of ensuring quality in all our work.”

In addition to Zimbabwe, countries sponsoring fellows this year were Brazil, Chile, Trinidad and Tobago, Greece, Georgia, Kenya, Rwanda, Tanzania, Uganda, Zambia, Saudi Arabia, India, Pakistan, China, Brunei Darussalam, and Philippines.

**Website Analysis Yields Insights into Public Use**

Looking for ways to make the public Web site ([www.gao.gov](http://www.gao.gov)) easier to use, GAO is gathering and analyzing user data from a Web metrics program. While private users were the most frequent visitors to the site, GAO found that other federal agencies and the Hill were prominent users as well. Fifteen of the top 50 service providers accessing GAO.gov came from other federal agencies. Users from the House of Representatives and the Senate were the 20th and 21st most frequent visitors, but they were more engaged than the typical user, viewing more pages per visit, staying on the site longer, and conducting more searches within the site.

Public GAO products--reports, testimony, and legal decisions and opinions--are available on [GAO's Web site](http://www.gao.gov) as they are released. In addition, you may sign up for [daily e-mail alerts](http://www.gao.gov) about issued products. You may also subscribe to [Twitter alerts](http://www.gao.gov) for reports and [legal products](http://www.gao.gov). Use the [search engine](http://www.gao.gov) to locate older products.
Auditing Standards Board Update — Fall 2012

Kay W. Tatum, Associate Professor, University of Miami

The AICPA's Auditing Standards Board (ASB) met four times in 2012: (1) January 10-12 in San Juan, Puerto Rico, (2) May 1-3 in Boston, (3) July 31-August 2 in Minneapolis, and (4) October 16-18 in Cleveland. The ASB also held teleconference meetings on August 16 and November 28. Table 1 presents the Statements on Auditing Standards (SASs) and the exposure draft of a proposed SAS that the ASB issued in 2012.

### Table 1. Proposed SAS, Task Force Chair, and Outcome

<table>
<thead>
<tr>
<th>Proposed SAS</th>
<th>Task Force Chair or Discussion Leader</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</td>
<td>Brian R. Richson PricewaterhouseCoopers</td>
<td>Voted to ballot as final SAS May meeting</td>
</tr>
<tr>
<td>Using the Work of Internal Auditors</td>
<td>Megan Zietsman Deloitte &amp; Touche</td>
<td>Voted to ballot as exposure draft October meeting</td>
</tr>
<tr>
<td>Omnibus Statement on Auditing Standards—2012</td>
<td>Abaya Z. Goldman AICPA</td>
<td>Voted to ballot as final SAS November meeting</td>
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### Going Concern

At its May 2012 meeting, the ASB voted to ballot the proposed SAS, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (Redrafted)*, for issuance as a final standard. SAS 126 is a redraft of SAS 59 (AU 341 and AU-C 570) in the clarity format. The new standard is not converged with International Standard Auditing (ISA) 570, *Going Concern*.

The proposed SAS was posted for comment on November 15, 2011, and the comment period ended on January 31, 2012. Twenty comment letters were received. The majority of the letters supported the rewrite; however, several commenters requested guidance about certain issues. For example, several commenters requested that the ASB consider modifications to the timeframe specified in the definition of a "reasonable period of time." Other commenters asked the ASB to address the impact of a lengthy delay in the issuance of the auditor's report. The ASB concluded that providing guidance on these and other issues was beyond the scope of the project, reaffirming its previous decision that this project was limited to redrafting SAS 59 in clarity format and agreeing that communications would be instrumental in making sure the public understands the limited scope of the project.

### Using the Work of Internal Auditors

At its October meeting, the ASB voted to ballot the proposed SAS, *Using the Work of Internal Auditors*, for issuance as an exposure draft. The proposed standard clarifies and converges SAS 65 (AU 322 and AU-C 610), *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, using ISA 610 (Revised), *Using the Work of Internal Auditors*, as a base. The
The proposed standard provides guidance to the external auditor when using the work of the internal audit function and when using internal auditors for direct assistance. Although it is a potential difference between GAAS and international standards, the ASB included direct assistance in the proposed standard.

When the International Auditing and Assurance Standards Board (IAASB) voted to approve as a final standard ISA 610 (Revised) in December 2011, it bifurcated its decision. The IAASB approved the section about the use of the internal audit function by the external auditor, but deferred approving the section about direct assistance to the external auditor. The IAASB’s concern was the possible independence implications of the external auditor using internal auditors in a direct assistance capacity. The IAASB asked the International Ethics Standards Board for Accountants (IESBA) to look into the issue. In January 2012, the IESBA issued an exposure draft of a proposed amendment to the definition of an engagement team to specifically exclude internal auditors working in a direct assistance capacity. The exposure period ended on May 31, 2012. The exposure draft and comment letters are available on the IESBA website at: http://www.ifac.org/publications-resources/proposed-change-definition-engagement-team. The topic will be discussed at December 2012 meetings of both the IAASB and the IESBA.

**Omnibus SAS—2012**


The proposed SAS was issued for exposure in August 2012. The comment deadline was October 31, 2012. Eighteen comment letters were received.

The amendment to Section 600 permits the group auditor to make reference to the audit of the component auditor when the component’s financial statements are prepared using a different financial reporting framework, if certain criteria are met. The amendment also permits the group auditor to make reference to the audit of the component auditor when the component auditor has performed an audit in accordance with the relevant requirements of GAAS.

The amendment to Section 800 adds a fifth category to the bases of accounting defined as special purpose frameworks. The category is an “other basis,” which is defined as a basis of accounting that uses a define set of logical, reasonable criteria this is applied to all material items appearing in financial statements. An example of this basis is the Financial Reporting Framework for Small and Medium Entities that is being developed by the AICPA and scheduled to be released in the second quarter of 2013.

**Future Meetings**

The ASB’s next meeting will be in Palm Springs, CA on January 9-11, 2013. Previous and future meeting highlights, as well as the dates of future and past meetings of the ASB can be found at http://www.aicpa.org/research/standards/auditat attest/asb/pages/asbmeetingmaterialsandhighlights.aspx.
Current Issues in Auditing Update — Fall 2012

Rich Houston, Professor, University of Alabama

Current Issues in Auditing, published by the Auditing Section of the American Accounting Association (http://aaapubs.org/loi/ciia/), contains articles, commentaries, and practitioner summaries of interest to both the academic and practitioner community. Articles are published online very soon after they are accepted, so please check the website often to view newly published articles.

Also, please consider submitting your work to Current Issues in Auditing (website for authors: http://ciia.allentrack.net/cgi-bin/main.plex). We invite regular articles and commentaries (including those related to the various projects currently being considered by the PCAOB) as well as practitioner summaries and educational resources.

We also invite you to access recently accepted articles not yet online in the journal at: http://aaapubs.org/toc/ciia/0/0.

Published and recently accepted articles include:


Commentaries. We also have published and recently a commentary from the Section’s Auditing Standards Committee. We refer you to http://aaajournals.org/doi/pdf/10.2308/ciia-50336.

Practitioner Summaries of Academic Research. We have published and recently accepted several such summaries, which we believe will be of great interest to academics, practitioners, and regulators. The most recent are included at http://aaajournals.org/toc/ciia/6/2 and http://aaajournals.org/toc/ciia/0/0.

Educational Resources. Finally, we have introduced another section of the journal that will include brief audit cases. Our intention is to consider cases and other materials that are perhaps not as detailed as those published in other journals, and our intention is to process them quickly in order to disseminate them to educators and practitioners on a timely basis. To give you an idea of the intended content of the section (we have not yet accepted any articles for this section), we provide the following summary:

Instructional Resources will include cases derived from actual or simulated business activity that are in line with the objectives of CIIA and are designed to provide timely instructional resources to auditing instructors. The instructional resources also include specific classroom...
exercises that are designed to enhance student understanding of current auditing issues. Thus, the resources should address current issues facing the auditing practice community (e.g., new opportunities and challenges, emerging areas, global developments, effects of new regulations or pronouncements, and effects of technological or market developments on audit processes). We define “auditing practice” broadly to include practice-related issues in external auditing, internal auditing, government auditing, IT auditing, assurance services, and related fields. Instructional resources, inclusive of implementation guidance, should follow the editorial guidelines of CIIA and should be a maximum of 2,500 words. The resources should be designed for immediate use by accounting faculty and should have two self-contained parts: the resource material itself (denoted “Instructional Resource”), and a separate instructor’s implementation guide (denoted “Instructional Resource Implementation Guide”). Each section should be submitted in a separate file and should have its own references and footnotes.

We have several articles, commentaries, and practitioner summaries that soon will be available. Thanks for your continued support of Current Issues in Auditing and, again, we invite you to submit your work.
Have you Seen?— Fall 2012

Tamara Lambert, Assistant Professor, University of Massachusetts-Amherst
Benjamin Luippold, Assistant Professor, Georgia State University
James Whitworth, Assistant Professor, University of North Carolina-Wilmington


This study examines whether strength of the firm’s ethical leadership (strong/weak) and the strength of the internal audit function (IAF)(strong/weak) affect experienced accountants’ responses to ethically ambiguous financial reporting decisions proposed by their immediate superior. Experimental results indicate that experienced accountants are most likely to ultimately resist reporting of the ethically ambiguous journal entry when the firm’s ethical leadership is weak and the IAF is strong. In fact, when the firm’s ethical leadership is weak but the IAF is strong, accountants are also more likely the question the appropriateness and ethicality of a questionable journal entry. Further, this interactive effect of the firm’s ethical leadership strength and IAF strength on accountants’ acceptance of an ethically ambiguous journal entry is fully mediated by the perceived moral intensity of the issue.


This study examines how financial statement users’ confidence in a standard unqualified financial statement audit report (SAR) is affected when the corresponding audit opinion for the internal controls over financial reporting (ICOFR) identifies a material weakness. The authors propose a model examining the link between the ICOFR report and users’ confidence in the SAR, whereby the ICOFR disclosure impacts users’ assessments of the capacity for material misstatements and the auditor’s ability to discover a misstatement (given that a material weakness exists). Using two experiments, they find that analysts have less confidence in the SAR when the company has an entity-level material weakness compared to an account-specific material weakness; however, average investors have less confidence in the SAR when the company received an adverse opinion for its ICOFR compared to an unqualified opinion. The authors conclude that, while auditing standards suggest that the financial statement and ICOFR reports are independent of one another, financial statement users do no treat them as such.

The authors investigate whether auditors believe that prior audit involvement results in a greater likelihood of engaging in quality threatening behavior – specifically, suppression of audit evidence. To test this, auditors read an audit scenario and indicated the perceived reputation threat and the likelihood of evidence suppression by an auditor who encounters evidence inconsistent with earlier conclusions (i.e., an exception is discovered during substantive testing after no exceptions were discovered during internal controls testing). The authors manipulate whether the auditor who discovered the exception also completed the controls testing (i.e., prior involvement) and time pressure (high/low) and find that auditors believe prior involvement will negatively affect personal reputation and therefore increase the likelihood of evidence suppression. These results are found to hold under varying degrees of time pressure.


This study considers the impact of the client’s use of pro forma disclosures on audit fees and auditor resignations. Auditors have a responsibility not to allow any overtly misleading voluntary disclosures. Also, potentially misleading pro forma disclosures are a fraud risk factor. Thus, a firm’s usage of pro forma disclosures that differ from actual earnings per share may represent increased risk to the auditor. The authors find that audit fees increase when the client’s voluntary pro forma disclosures differ from audited results and that this fee premium increases post-SOX. The authors also find some evidence that pro forma disclosures involving “other exclusions” (i.e., not special items) impact the likelihood of an auditor resigning. This provides interesting evidence on the impact of voluntary disclosure on the external auditor and suggests that auditors appear to be more concerned with non-GAAP earnings disclosures in the post-SOX period.


This analytical modeling study considers the impact of increased auditor liability on audit failure, the cost of capital, and the firm’s level of new investment in a lemons market involving information asymmetry. The model provides an array of testable hypotheses. For example, increased auditor liability is predicted to decrease audit failure rates by increasing the rate of false positives (type 1 errors) and, by extension, decreasing the likelihood of a false negative (type 2 error). More interestingly, the authors find that increased auditor liability decreases the cost of capital on new investments; but, as fewer new projects are funded, it also decreases the level of new profitable investment. These proofs suggest that while Sarbanes-Oxley may decrease audit failure and the cost of capital for new firm investments actually made (desirable outcomes, ceteris paribus), the increase in audit report type 1 errors may lead to a lack of funding for profitable projects due to the impact of false positive audit reports on some firms’ cost of capital.


This paper examines the determinants of an audit partner “rotating back” to a former client, after the required “cooling-off” period expires, and explores the impact of the partner’s return on subsequent audit quality. Using data from China, where the cooling off period is two years, the authors consider four hypotheses related to switching costs, agency conflicts, client desirability, and the partner’s capacity constraint. They find that all four factors help to explain the likelihood that the partner will rotate back. With regard to audit quality, they find that greater audit adjustments (to pre-audit earnings) before the cooling off period increases this likelihood; and, the likelihood of
a modified audit opinion declines when the past partner rotates back. The authors conclude that these results support regulatory concerns about the potential for impaired audit quality when an audit partner rotates back to a former client.
Nineteenth Annual Auditing Section Midyear Conference

Dear Auditing Section Members,

Please make plans to attend the Nineteenth Annual Auditing Section Midyear Conference to be held in New Orleans, Louisiana on January 17–19, 2013. The Conference will be held at the New Orleans Marriott, located on Canal Street in the French Quarter. We will be steps away from Bourbon Street and other iconic New Orleans attractions. A limited number of rooms have been reserved at the special conference rate of $154 per night inclusive of internet access, single or double. Please make your Hotel Reservations before December 17, 2012 to take advantage of this special room rate.

You can Register Online for the Early Registration price of $275 until December 17, after which the Registration price increases to $305. You will need your AAA Login ID and password to log in; if you have forgotten your Login ID and/or password, use the Password Request Form (Note that the email address you enter must be the same email address contained in your AAA member record.) If you do not receive an email message containing your login information, please contact the American Accounting Association at info@aaahq.org.

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 Saturday morning plenary session will feature a presentation by columnist and re: The Auditors blogger Francine McKenna. Ms. McKenna’s website is available at: http://retheauditors.com/

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. During this year’s workshop, participants will work with a new fraud case provided by the CAQ, FEI, NACD, and IIA. A facilitator will lead the group through the case in a simulated classroom setting and will use that experience as a basis for discussion about case instruction and how to improve case teaching effectiveness. The case being used will be available to all interested instructors by the time of the conference, but the intensive exposure in the workshop should prepare attendees to more quickly incorporate the case into their own classrooms. There is a $40 registration charge for this Workshop and pre-registration is required. If you have questions regarding the workshop, please contact Scott Showalter (e-mail: Scott_Showalter@ncsu.edu).

Thanks to the generous support of the KPMG Foundation, the 14th Annual Auditing Section Doctoral Consortium will be held on January 17, preceding the Midyear Conference. The chair of this year’s Consortium is Robert Knechel. 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. All Ph.D. students with an interest in auditing research were eligible to apply to attend the Consortium but due to space constraints, only a limited number of students were invited to attend. Students were notified in October whether their applications to attend this year’s Consortium were approved.

Make plans now to join us in New Orleans next January!

Jackie Hammersley and Linda Myers
2013 Auditing Section Midyear Conference Co-Chairs

Roger Martin
Auditing Section President