Greetings from Bentley University,

It is a beautiful day in New England, as the fall foliage is absolutely at its peak. I hope that you are enjoying the fall semester as much as I am. To begin, I want you all to know how truly humbled and honored I am to have the opportunity to serve as the President of the Auditing Section of the American Accounting Association. We have a fantastic group of colleagues that have stepped up to serve on the Executive Committee and I look forward to working with this team in the upcoming year. As I mentioned at the Annual Meeting, we all recognize that the hard work of the colleagues who came before us allows us to work from a position of strength. We stand on the foundation of excellence that has been provided to us and we are committed to building on that foundation.

In that spirit, I truly appreciate all of the Section members who have agreed to serve on one of the Section's many important committees in the upcoming academic year. When I began the task of contacting colleagues to serve, I was honestly amazed that almost **ALL** of the people that I approached were willing to serve. I did not expect that my positive response rate would be over 95% but that is exactly what it was. I appreciate the sincere enthusiasm with which Section members have embraced the opportunity to serve, which actually makes me even more enthusiastic about serving as your President (if that is possible). Rest assured, I will do my best to help each volunteer feel great about their decision to serve.
I plan to do so by helping to make sure that we remain focused on our strategic objectives. As you may recall, the strategic plan was put in place back in 2009 to help guide the actions of the Executive Committee on a day-in-day-out basis. As a result, I plan to use the strategic plan diligently during my time as your President. For those of you that would like to read the strategy, I would encourage you to consult the operating manual which provides key excerpts from our strategic plan, which can be found here: http://aaahq.org/audit/bylaws.htm#manual.

I remind you all about our strategy and mission because my theme for the upcoming year is best described as “Strategy in Action”; this is what I see happening as I work with the various committees across the Auditing Section. Perhaps there is no better example of strategy in action than the important meetings that Section members actively organize and participate in, such as the annual meeting and the midyear meeting.

2014 Annual Meeting in Atlanta, GA

The AAA Annual Meeting held in Atlanta, GA was an outstanding success. I would like to extend a big thanks to the 2014 Planning Committee for their work in pulling together an excellent program for the meeting in Atlanta. The committee included three co-directors, Chris Hogan, Mark Zimbelman and Mike Wilkins, along with four vice-directors Kathy Hurtt, Jayanthi Krishnan, Scott Showalter and Martin Wu. Congratulations on a job well done. In all, the committee received 218 paper submissions this year, which first had to be sent along to reviewers. Once the review process was complete, the accepted papers then had to be allocated to concurrent sessions and discussants had to be assigned. As you can imagine, this is a time consuming process and the team worked incredibly hard to deliver an outstanding program for Section members. If you were able to attend the meeting in Atlanta, I hope that you found the sessions and panels helpful in your research and teaching efforts.

Among the many highlights of the meeting was the Center for Audit Quality (CAQ) Panel about trends in financial restatements since the passage of the Sarbanes-Oxley Act. The panel was moderated by CAQ Executive Director Cindy Fornelli. Panelists included Michael Gaynor of KPMG, Steve Meisel of PwC, Chris Smith of BDO, and Section member Susan Scholz of the University of Kansas who presented key findings from her in-depth descriptive analysis of restatements. A videotape of the panel can be found here: http://www.thecaq.org/resources/video-library/caq-at-aaa/panel-at-2014-aaa-annual-meeting.

The CAQ also hosted its annual Symposium in Atlanta. The Symposium brought together senior practice leaders and academic scholars for a dialogue on issues of importance to the profession. This year’s topics were audits of internal control over financial reporting (ICFR) and audit quality indicators. Attendees participated in smaller breakout discussions on key areas addressed during the panel: planning of audits of ICFR, control testing, evaluation of controls, and accounting curriculum and training. A video of the panel discussions and highlights from the breakout sessions can be found here: http://www.thecaq.org/resources/video-library/caq-symposium/sixth-caq-annual-symposium

At the Auditing Section Luncheon, attendees had the opportunity to hear from Stephen R. Howe, Jr., Americas Managing Partner and
Managing Partner of EY on a wide range of relevant topics. In addition, the annual changes to the Executive Committee were made. More specifically, Roger Martin was thanked by Mark Taylor for his three years of excellent service as Vice-President - Academic, President and Past President for the Section. In addition, Mark thanked Jackie Hammersley for her excellent service as Secretary, Darrell Schubert for his excellent service as Vice-President - Practice and Mark Beasley for his excellent Service as Historian.

Welcomed to the Executive Committee at the Luncheon were Steven Meisel (PwC) as Vice-President - Practice, Mark Zimbelman as Secretary, Scott Showalter as Historian and Chris Hogan as Vice President - Academic (President Elect). The remaining members of the committee include Mark Taylor, who now assumes the position of Past President after an outstanding year as President and Christine Earley our Treasurer. In addition, Audrey Gramling remains the Section's AAA Council Representative and her service is most appreciated. If you ever have any questions and/or suggestions about actions to be taken or concerns, please do not hesitate to contact me or any one of the Executive Committee members and/or the Committee Chairs. Contact information can be found here: http://aaahq.org/about/directory2015/sectionregion/aud.htm.

2015 Midyear Meeting in Miami, FL

In my view, there is no better place to interact with professional friends and colleagues from the Auditing Section than at the Midyear Meeting. In fact, when I think about my favorite memories as a member of the Section, I often remember the midyear meetings that I have attended. The 2015 Midyear Meeting will be held in Miami, FL at the Miami Hilton. I have been told that South Beach is just a cab ride away. So, I look forward to seeing you all in Miami! Rest assured, the planning committee is hard at work getting ready for what looks to be another outstanding event.

An enormous thank you goes out to this year’s MYM Program Planning Committee. Co-Chairs Julia Higgs and Rani Hoitash, along with Vice Chairs Brian Daugherty and Jonathan Stanley have been working very hard to put together an outstanding program. In fact, I am pleased to report that this year’s Midyear Meeting will feature James Doty, Chairman of the PCAOB as our Friday morning plenary speaker. Chairman Doty is passionate about educating the next generation of auditing professionals and he looks forward to sharing his views with Section members. In addition, similar to previous meetings, the program will also include plenary sessions, concurrent sessions, and panels addressing a wide variety of contemporary topics related to audit and assurance research, practice, and education.

Among the panels to be offered is one being organized by Greg Jonas, Director of the Office of Research and Analysis at the PCAOB. This panel will focus on Audit Quality Indicators and will include, Mike Cook, Former CEO of Deloitte; and current chair of the audit committee for Comcast, Mike Gallagher, Managing Partner for Audit Quality at PwC, Brian Croteau, the Deputy Chief Accountant in the Office of the Chief Accountant at the SEC, and Section member Carol Dee. What a panel! In addition, I am pleased to announce that the infamous Sam Antar will be featured on a Saturday afternoon panel that is hosted by the Education Committee to talk about the fraud Antar helped to perpetrate at Crazy Eddie.

Once again, I would like to thank the KPMG Foundation, for its
The simple fact is that meeting costs have increased substantially in recent years. As a result, the Executive Committee had no choice but to institute a submission fee for this year's Midyear meeting (as you already know). While we all wish that meeting costs were not rising, it makes us even more grateful for the KPMG Foundation's sponsorship. Among other benefits, the sponsorship amount is instrumental for funding the Doctoral Consortium and allowing our Doctoral Students to attend the meeting for a reduced registration fee.

Finally, the MYM program will be preceded by two exciting events on Thursday January 15, 2015. First, the Excellence in Auditing Education Workshop will once again be sponsored by the Section's Education Committee. I am pleased to report that due to the extraordinary efforts of our Education Committee Chair, Tom Kozloski, our Historian, Scott Showalter, and Margot Cell from the CAQ, this year's Workshop will feature approximately 16-20 audit education leaders from professional practice. The colleagues, primarily from the training divisions of the largest CPA firms in the world will join us during the workshop to explore best practices relating to developing critical thinking skills in the classroom. The plan is to create a forum that will allow for a dialogue between all of these parties in order to, on the one hand, understand the latest developments in practice that impact curricular goals in the classroom and, on the other hand, better inform professional practice about curricula direction on campuses. Please watch for more details, but we believe that this workshop will provide an opportunity to enhance collaboration between audit educators and their colleagues from practice regarding how to best prepare students for their careers as audit professionals. Pre-registration for the workshop is required and includes a separate registration fee. Seating is limited, so register early. See the meeting registration page for further details: http://aaahq.org/audit/midyear/2015/online.cfm.

The MYM will also be preceded by the Doctoral Consortium being organized by Chris Agoglia. The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas from leading researchers in auditing, and also by providing candidates with opportunities for networking with other Ph.D. students, established auditing researchers, and journal editors. Knowing Chris, the Doctoral Students in attendance are in for a real treat. My sincerest thanks are extended to Chris for his willingness to lead this critical event.

**AJPT - Request for Papers**

As you may know, Auditing: A Journal of Practice & Theory has a number of upcoming research forums that I wish to remind you about. The upcoming forums are: 1) Auditing and the Public Interest, which is designed to encourage work that aids in developing a clearer understanding of the auditing profession’s public interest responsibilities; 2) Auditing in a Changing Environment, which is designed to encourage research that examines auditing in the context of social, organizational and professional change; and 3) A Retrospective Evaluation of SOX and the Auditing Profession, which is designed to examine the changes in the landscape of auditing and assurance, management performance, and governance, both in the US and on a global basis. I hope you will consider submitting a paper for one of the upcoming research forums. The deadline for each forum is September 1, 2015. If you are interested in doing so, please send a note to Jeffrey Cohen, the senior editor (ajpt@bc.edu) when it is convenient so that his editorial team can plan accordingly for
Center for Audit Quality - Requests for Proposals

I want to inform you about two requests for research proposals from the CAQ. The first is the Access to Audit Personnel Program. As you may know, The CAQ and the Auditing Section established the Access to Audit Personnel Program to generate research on issues that are relevant to audit practice while providing doctoral students and tenure-track professors with access to audit firm staff in order to complete data collection protocols. For 2015, the request for proposals was released on November 14, 2014. The submission deadline for proposals will be February 2, 2015. The second is the CAQ Research Advisory Board Grant Program. This program is designed to support valuable academic research that will have significant real world impact on the future of auditing and audit quality. For 2015, request for proposals will be released in December. The submission deadline for proposals will be March 20, 2015.

In closing, I would like to once again thank all of the Section members that have stepped up to serve on the important committees of the Auditing Section. As an example of the work that is being completed, let me highlight the work of one colleague on the Research Committee, Jennifer Mueller. Over the past several years, Jennifer has worked to spearhead an effort to disseminate brief practitioner-oriented summaries of audit research published from 1999 to the present in leading journals such as AJPT, AOS, BRIA, CAR, AH, and TAR. To date, the database contains 250 article summaries organized into a topical framework. If you have not had a chance to see this database, I encourage you to visit www.auditingresearchsummaries.org and enjoy the well written summaries. A special thanks to Jennifer for her hard work on the research summaries project! As I move forward, I will continue to share these types of examples of our "strategy in action".

I hope you enjoy the rest of the fall semester. I will see you in sunny Miami, FL!

Jay C. Thibodeau
President
PCAOB Update

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

Introduction
This Update addresses selected PCAOB developments since the Summer 2014 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed include:

- Settled Disciplinary Action Against Former PricewaterhouseCoopers LLP Partner
- Cooperative Agreement with Denmark Audit Regulator
- Third Progress Report on PCAOB Inspections of Broker and Dealer Auditors
- Staff Consultation Paper on Auditing Accounting Estimates and Fair Value Measurements
- Staff Audit Practice Alert on Auditing Revenue
- Staff Audit Practice Alert on the Auditor's Consideration of a Company's Ability to Continue as a Going Concern
- Economic Research Fellowships for the 2015-2016 Academic Year

Settled Disciplinary Action Against Former PricewaterhouseCoopers LLP Partner

On July 7, 2014, the Board announced a settled disciplinary order against Randall A. Stone, CPA, of Austin, Texas, a former PricewaterhouseCoopers LLP (PwC) partner, for violating PCAOB rules and standards in PwC's 2007 audit of ArthroCare Corporation. Stone was the partner in charge of the 2007 audit. The Board found that Stone ignored or failed to properly evaluate numerous indicators that should have alerted him to the possibility that ArthroCare was improperly recognizing revenue on its 2007 sales of medical devices to DiscoCare, Inc. The order bars Stone from associating with a registered public accounting firm-with the right to petition the Board to remove the bar after three years-and imposes a $50,000 civil money penalty and a censure. Stone consented to the order without admitting or denying the findings.

The settled disciplinary order is available on the PCAOB website at:

Cooperative Agreement with Denmark Audit Regulator

On July 18, 2014, the Board announced that it had entered into a cooperative arrangement with the Danish Business Authority (DBA) for the oversight of audit firms subject to the regulatory jurisdictions of both regulators. The agreement took effect immediately. The agreement with the DBA provides a framework for joint inspections and allows for the exchange of confidential information in accordance with the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

The cooperative agreement is available on the PCAOB website at:
http://pcaobus.org/International/Documents/
Third Progress Report on PCAOB Inspections of Broker and Dealer Auditors

On August 18, 2014, the Board issued its third progress report on the Board's interim inspection program for auditors of brokers and dealers registered with the Securities and Exchange Commission (SEC). In the report, the PCAOB identified audit deficiencies or independence findings in 56 of the 60 audit firms inspected, and in 71 of the 90 audits inspected in 2013.

Audit deficiencies were found in portions of 70 of the 90 audits. Independence findings were found in 21 of the 90 audits, where firms helped with the bookkeeping or preparation of the financial statements they audited, contrary to SEC rules. The most frequent audit deficiencies were noted in financial statement audit areas, including auditing revenue recognition, the auditor's response to the risk of material misstatement due to fraud, and audit procedures to rely on records and reports from service organizations, as well as areas specific to the audits of broker-dealers, including auditing the net capital computation and the audit work performed for the auditor's report on material inadequacies.

During 2015, the Board will continue its interim inspection program. In addition, the Board is taking a careful and informed approach in developing the scope of a permanent inspection program. The Board continues to evaluate the risk of loss to customers of broker-dealers and, in this regard, plans to review new broker-dealer compliance and exemption reports and the respective auditors' reports. The Board anticipates issuing a proposal for a permanent inspection program in 2016, which will include a consideration of whether to exempt any category of registered firms from the program.

The report is available on the PCAOB website at:


Staff Consultation Paper on Auditing Accounting Estimates and Fair Value Measurements

On August 19, 2014, the Board issued for public comment a Staff Consultation Paper on standard-setting activities related to auditing accounting estimates and fair value measurements. The paper was prepared by the Office of the Chief Auditor as part of its outreach efforts to seek input related to the potential need for changes to the PCAOB standards in this important area and a possible approach for a new auditing standard.

The Office of the Chief Auditor staff is seeking comment on current audit practice, the potential need for changes to PCAOB standards, and possible alternative actions related to auditing accounting estimates and fair value measurements, as well as derivative instruments and securities.

The staff have discussed these issues on numerous occasions with the PCAOB Standing Advisory Group (SAG) and its Pricing Sources Task Force. The Staff Consultation Paper advances those discussions by describing the staff's preliminary views on a potential approach to changing the PCAOB's existing standards and seeking views and other information on that approach.

The Staff Consultation Paper is available on the PCAOB website at:

http://pcaobus.org/Standards/Documents/SCP_Auditing_Accounting_Estimates_Fair_Value_Measurements.pdf

In addition, on October 2, 2014, the Board held a SAG meeting to discuss the potential need for changes to PCAOB standards for auditing accounting estimates and fair value measurements. The SAG meeting agenda included panel discussions offering unique
perspectives on the potential need for changes to the standards for auditing estimates and fair value measurements.

The agenda and panelists for the meeting as well as the webcast of the meeting are available on the PCAOB website at:

http://pcaobus.org/News/Events/Pages/10_02_2014_SAG.aspx.

Staff Audit Practice Alert on Auditing Revenue

On September 9, 2014, the Board issued Staff Audit Practice Alert No. 12, Matters Related to Auditing Revenue in an Audit of Financial Statements. The alert highlights for auditors the requirements for auditing revenue under PCAOB standards in light of significant audit deficiencies in this area that have been frequently observed during PCAOB inspections.

The practice alert discusses the following topics, and related significant deficiencies, regarding auditing revenue:

Testing Revenue Recognition, Presentation, and Disclosure

- Testing the recognition of revenue from contractual arrangements
- Evaluating the presentation of revenue-gross versus net revenue
- Testing whether revenue was recognized in the correct period
- Evaluating whether the financial statements include the required disclosures regarding revenue

Other Aspects of Testing Revenue

- Responding to risks of material misstatement due to fraud associated with revenue
- Testing and evaluating controls over revenue
- Applying audit sampling procedures to test revenue
- Performing substantive analytical procedures to test revenue
- Testing revenue in companies with multiple locations

The alert is available on the PCAOB website at:


Staff Audit Practice Alert on the Auditor's Consideration of a Company's Ability to Continue as a Going Concern

On September 22, 2014, the Board issued Staff Audit Practice Alert No. 13, Matters Related to the Auditor's Consideration of a Company's Ability to Continue as a Going Concern. This alert was issued in light of recent changes to U.S. generally accepted accounting principles (U.S. GAAP) about disclosure of uncertainties about a company's ability to continue as a going concern. The alert says that auditors should look to the applicable financial reporting framework—whether U.S. GAAP or International Financial Reporting Standards (IFRS)—to assess management's going concern evaluation and the related financial statement disclosures.

The alert also makes clear that auditors should continue to look to the existing requirements of AU sec. 341, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, when evaluating whether the auditor's report requires an explanatory paragraph disclosing the auditor's substantial doubt about a company's ability to continue as a going concern.

A determination that no disclosure is required under U.S. GAAP or IFRS, as applicable, is not conclusive as to whether an explanatory paragraph is required under AU sec. 341. Auditors should make a separate evaluation of the need for disclosure in the auditor's report in accordance with the requirements of AU sec. 341.
The PCAOB staff is currently reviewing AU sec. 341 and evaluating potential revisions to that auditing standard, including consideration of accounting standards and input from the Board's advisory groups. Any proposed revisions to AU sec. 341 would be made through the PCAOB's standard-setting process, including the opportunity for public comment.

The alert is available on the PCAOB website at:


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**Economic Research Fellowships for the 2015-2016 Academic Year**

On October 14, 2014, the Board announced that it is seeking candidates for economic research fellowships for the 2015-2016 academic year. Up to four Fellows will be chosen to conduct research within the Center for Economic Analysis, which was established to study the role and relevance of the audit in capital formation and investor protection, and to encourage related economic research.

The fellowships will start in August 2015 or a mutually agreed-upon date and will continue for 12 months with the possibility of a single one-year renewal. Candidates should have an active interest in auditing, the capital markets and regulatory oversight matters. Applications are due no later than January 15, 2015.

Additional details on the fellowship positions and the application process are available at:

http://pcaobus.org/Careers/Pages/Economic_Research_Fellowship_2016.aspx
GAO Update

By Steve Sebastian and Maxine Hattery

GAO has issued revised standards for government internal control, a crucial safeguard over the nation's public resources. Gene L. Dodaro, Comptroller General of the United States and head of GAO, explains in introducing the standards: "An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities. As programs change and entities strive to improve operational processes and implement new technology, management continually evaluates its internal control system so that it is effective and updated when necessary."

The Standards for Internal Control in the Federal Government (the "Green Book") was first issued in 1983, as required by the Federal Managers’ Financial Integrity Act (FMFIA) of 1982. The act also requires that federal agency executives periodically review and annually report on the agency's internal control systems.

The new edition of the standards adapts the principles of internal control established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the joint initiative of five private-sector financial, accounting, and auditing organizations. COSO introduced the concept of principles related to the five components of internal control and updated its guidance in 2013 with a revised Internal Control - Integrated Framework. The Green Book adapts these principles for a government environment.
The new edition has added detail and depth. It retains the five components of internal control found in past editions, and presents 17 principles, and their attributes, which underlie management responsibilities in implementing and overseeing an effective internal control system.

Superseding Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1, November 1999), the new edition will be effective beginning fiscal year 2016 and apply to FFIA reports covering that year. Federal management may elect early adoption of the standards, and state, local, and quasi-governmental entities, and not-for-profit organizations have the option of adopting them as a framework for an internal control system.

Comptroller General Dodaro acknowledged the significant contributions that a number of government officials, public accounting professionals, and other members of the audit and academic communities made to the new Green Book. He also thanked the members of the Advisory Council on Standards for Internal Control in the Federal Government for their help in developing and finalizing the standards.


**GAO Focuses on Higher Education**

*Experts Discuss the President's Plan for Holding Colleges Accountable*

To address concerns about the rising cost of college and the fact that nearly half of students do not graduate, President Obama in 2013 called for the federal government to develop a system for rating colleges on affordability, access, and student outcomes. This system would be used for consumer information and to limit access to federal student aid for colleges that perform poorly. The Department of Education is working on
a draft rating system.

In July 2014, GAO invited a panel of experts in higher education for a discussion about the President’s plan. Panelists included David Bergeron, Vice President for Post-Secondary Education for the Center for American Progress; Patrick Perry, Vice Chancellor for the California Community College System; Ben Miller, Senior Policy Analyst for the New America Foundation; and Tod Masa, Policy Director for the State Council of Higher Education for Virginia.

The two main causes of soaring student loan debt, according to Mr. Bergeron, are state disinvestment in higher education and declining public confidence in the United States’ higher education system. His proposed solutions include moving to a community-of-practice model (rather than one of accreditation), with a limited connection to aid, and requiring colleges to play a part in financing student loans, with revenue from these loans provided to colleges with limited resources.

Based on his experience working with the California Community College System, Mr. Perry spoke about the difficulty in measuring outcomes for community colleges, where factors such as remediation and part-time status need to be taken into consideration. He warned that removing financial aid eligibility for open-access 2-year public colleges could deter students from attending college or lead them to take on more student-loan debt to attend higher-cost institutions.

An alternate approach—holding only the lowest-performing institutions accountable—would be more effective, Mr. Miller said, because it would allow the Department of Education to target the institutions that pose the greatest risk in exacerbating long-term student debt. The approach would be based on the department’s federal financial aid data and focus on 4-year institutions.

Mr. Masa, however, questioned whether the department has sufficient quality data needed to effectively implement the college rating system. He proposed that the department exercise its authority under Title IX to examine disclosure and reporting requirements, and evaluate institutions against themselves rather than one another.

Comptroller General’s Advisory Panel Helps Educators Prepare and GAO Recruit Skilled Graduates

The Comptroller General engaged members of GAO’s Educators Advisory Panel in a series of informational briefings and strategic discussions at their annual meeting in July. The panel advises the Comptroller General on strategies, best practices, operations, and emerging human capital issues and trends related to recruitment, hiring, development, and retention of a diverse, talented, dedicated, and results-oriented workforce.

In the annual meeting, panel discussion provides information and insight that help educators prepare students for potential employment at GAO and identify opportunities for incorporating GAO’s methodological approaches, perspectives, and results into academic curricula. There are currently 26 schools represented on the EAP along with the National Association of Schools of Public Affairs and Administration and the Partnership for Public Service.

During this year’s meeting, the Comptroller General provided an agency status update as well as an overview of GAO’s new strategic plan, focusing on the seven trends that will inform the skills and talents required by GAO over the next 5 years. The panel also heard about GAO’s telework program, including enhanced telework efforts in the field, and financial literacy initiatives, both governmentwide and for the GAO internal workforce.

Identity-Theft Refund Fraud

Back in January, for Tax Identity Theft Awareness Week, GAO identified the two major types of tax-related identity fraud: refund fraud and employment fraud. Earlier this week,
GAO released a new report on identity-theft tax-refund fraud. In the report, GAO examined IRS's estimates about the extent of the problem and the need for information on the costs and benefits of options for combating it.

Identity-Theft Refund Fraud: a Refresher

Tax-refund fraud occurs when identity thieves use a stolen Social Security number and other identifying information to file for a tax refund. In this way, identity thieves take advantage of IRS's look-back method of verifying tax returns. After doing some limited reviews, IRS issues a refund and then looks back later to make sure the tax refund claimed is the real thing. IRS usually issues refunds months before it matches wage information on tax returns with information that employers have reported on Form W-2. This look-back method helps IRS get refunds to taxpayers quickly, but it can also make the tax system vulnerable to refund fraud.

Identity-Theft Refund Fraud Costs Billions

IRS's preliminary estimates suggest that identity thieves attempted to commit $29.4 billion in identity-theft refund fraud in filing season 2013. Of that amount, IRS estimates it paid $5.2 billion in fraudulent identity theft refunds. IRS officials expect that estimate will increase to $5.8 billion after they update their analysis. However, IRS does not know the full extent of the problem because of the challenges inherent in detecting identity theft refund fraud. For example, IRS cannot estimate the amount of identity theft refund fraud for cases where there are no duplicate returns, information returns (such as W-2 forms), or criminal investigations associated with a tax return.

Protecting Taxpayers from Identity Theft Refund Fraud

Although IRS has developed tools to combat identity theft refund fraud, identity thieves are learning and changing their tactics—which means IRS must respond with new ways to combat fraud. While there are no simple solutions, one option discussed in GAO's report is matching W-2 information to returns before issuing refunds. One or more of these other steps would have to be taken to make this happen:

- Employers would have to file W-2s sooner (or more employers would have to file W-2s electronically),
- IRS could delay the tax filing season, or
- IRS could delay refunds.

GAO found that IRS had not yet assessed the costs and benefits of moving up W-2 deadlines or prerefund matching. However, according to IRS, this strategy could potentially have prevented a substantial portion of the fraudulent refunds in the 2013 filing season.

A future report on this topic will cover other options to help combat identity theft refund fraud.


For the complete article and others on Watchdog, go to:

http://blog.gao.gov

Recent Reports

Large Partnerships: With Growing Number of Partnerships, IRS Needs to Improve Audit Efficiency, GAO-14-732, Sep 18, 2014.


In 2014 the Auditing Standards Board's (ASB) agenda was dominated by the attestation standards project. The ASB continued discussions about the auditor reporting projects undertaken by the International Auditing and Assurance Standards Board (IAASB) and Public Company Accounting Oversight Board (PCAOB), as well as the Financial Accounting Standards Board's (FASB) going concern project. The Board also devoted meeting time to the topic of audit quality.

Attestation Standards

At its July 2014 meeting, the ASB voted to ballot for exposure two proposed standards—a proposed Statement on Auditing Standards (SAS) and a proposed Statement on Standards for Attestation Engagements (SSAE). The proposed standards are part of the ASB's attestation project, which was first discussed by the Board at its January 2012 meeting. The objective of the project is to clarify the extant attestation standards and converge them with the IAASB’s assurance standards.

Proposed SAS, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, creates AU-C section 940 in the AICPA Professional Standards and withdraws AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*. Because engagements performed under AT section 501 are required to be integrated with an audit of financial statements, the ASB concluded that it was appropriate to move AT section 501 into generally accepted auditing standards. When drafting the proposed SAS, the ASB adhered as closely as possible to extant AT section 501 and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, while aligning with GAAS. The comment deadline is December 10, 2014. The ASB will consider developing an attestation standard addressing examinations of internal control other than internal control over financial reporting that is integrated with an audit of financial statements at a later date.


Auditor Reporting, Including Going Concern

The ASB has been closely monitoring the IAASB and PCAOB’s reporting projects and the FASB’s going concern project in anticipation of their impact on AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*; AU-C section 570, *The Auditor's Consideration of an Entity’s Ability to Continue as a Going Concern*; and related sections.

At its September 2014 meeting, the IAASB voted out as final, subject to approval by the Public
Interest

Oversight Board, a suite of reporting standards. They are:

- ISA 700, Forming an Opinion and Reporting on Financial Statements
- ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report
- ISA 705, Modifications to the Opinion in the Independent Auditor's Report
- ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- ISA 260, Communication with Those Charged with Governance
- ISA 570, Going Concern

ISA 701 creates a new auditing standard. The other ISAs revise existing standards. The standards will be effective for audits of financial statements for periods ending after December 15, 2016. Early adoption is permitted.

On August 13, 2013, the PCAOB issued Release No. 2013-005, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendment to PCAOB Standards. It is expected that the PCAOB will reissue its proposed standard. The PCAOB's agenda also includes a project to consider revising its going concern standard, AU section 341, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The standard defines the term substantial doubt about an entity’s ability to continue as a going concern, requires an evaluation every reporting period (including interim periods), and requires an evaluation for one year after the date that the financial statements are issued (or available for use). Applicable to all entities, the standard is effective for annual periods ending after December 15, 2016 with earlier application being permitted.

In light of its commitment to converge with international standards, but avoid unnecessary differences with PCAOB standards, the ASB has agreed to a two stage process to address the impact of these accounting and auditing standard setting activities on GAAS. In stage one the ASB will issue interpretations of AU-C section 700 and AU-C section 570 to provide guidance about practice issues raised by the issuance of the IAASB's auditor reporting standards (in particular, key audit matters) and the FASB's going concern standard. In stage two the ASB will undertake a reporting project to amend its standards that will consider the final IAASB standards and final PCAOB standards (when issued).

Audit Quality

At its October meeting, the ASB discussed the AICPA’s Enhancing Audit Quality Initiative. The initiative’s objective is to help auditors maintain excellence in private entity financial statement audits given today’s complex business environment. In August 2014, the AICPA released the discussion paper Enhancing Audit Quality: Plans and Perspectives for the U.S. CPA Profession. Comments are requested by November 7, 2014. Information about the initiative, including the discussion paper, is available at

http://www.aicpa.org/InterestAreas/PeerReview/Pages/EAQ.aspx

Future Meetings

The ASB is scheduled to meet four times in 2015: January 12-15 in San Diego, California; May 12-15 in Baltimore, Maryland; July 21-23 in Denver, Colorado, and October 13-15, location to be determined. The January and May meetings have been expanded to four days in an effort to move the attestation project to completion. The dates of past meetings of the ASB, as well as previous meeting highlights, are available at

Current Issues in Auditing
By Greg Jenkins
Virginia Tech University

Current Issues in Auditing, published by the Auditing Section of the American Accounting Association, [http://aaapubs.org/loi/ciia/](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](http://ciia.allentrack.net/cgi-bin/main.plex). We invite regular articles, commentaries related to issues confronting the auditing profession, practitioner summaries of research articles you have published, and educational resources. We also encourage articles that result from collaboration among members of the academic and professional communities. So, please consider reaching out to those you know in the profession to begin exploring projects of common interest.

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

There are a number of interesting articles that you can find about a range of topics including offshoring of audit services, drivers of auditor selection, the use of checklists in auditing, and the changes in auditor reporting in the broker-dealer industry.

**Point/Counterpoint Series**

We have introduced a new section of the journal - the Point/Counterpoint series - to encourage articles that consider contemporary issues about which little has been written in the academic literature. We encourage submissions that present multiple perspectives on contemporary topics. Submissions should clearly explain the issue being explored and include separate "Point" and "Counterpoint" sections. We look forward to receiving submissions in this category.

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

This study examines how post-SOX legal liability and mandated internal control audits affect management's internal control decisions and investor confidence. The authors first hypothesize that legal liability (H1a) and mandated ICFR audits (H1b) will cause managers to increase their spending on internal controls. They then predict that even after controlling for increased internal control spending, legal liability (H2a) and mandated ICFR audits (H2b) will result in more accurate management disclosures about ICFR. Finally, they predict that liability and ICFR audits interact as substitutes for both investor confidence (H3a) and investor's price discount (H3b). The authors conduct a laboratory experiment where MBA students were assigned to the role of manager or investor. In the first part of the experiment, managers decide how much money to spend on ICFR; they then learned the probability of ICFR effectiveness based on their spending and disclose to investors whether they believe the ICFR are effective or not. In the second part of the experiment, investors receive both an earnings report and the ICFR disclosure, rate the confidence of the information, and submit a bid to purchase. Consistent with the authors' predictions, IC audits and legal liability have incremental benefits for motivating management to improve ICFR; however, IC audits and legal liability serve as substitutes for investor confidence evaluations.


This study examines whether professional skepticism is elevated by accountability pressure and ignorance of a superior's preference. The authors discuss the concept of preemptive self-criticism as a "strategic response to accountability pressures." Specifically strategic self-criticism involves exerting more cognitive effort to evaluate one's position from different viewpoints. The authors hypothesize that greater accountability pressure will lead to more preemptive self-criticism, but only when a superior's viewpoint is unknown. To test this, postgraduate accounting students complete an analytical review task. Fluctuations suggest that an increase in sales had occurred; but, there was too much ambiguity to point to a single cause. The authors manipulate knowledge of their superior's view at three levels (unknown, known but not skeptical, known and skeptical). They then measure participants' level of accountability after informing them that they will be accountable to a faculty member (who did not
teach the class they were taking). The dependent variable is the number of unique interpretations of the controller's explanation elicited from participants and the direction (supporting v. discounting) of those interpretations. Results support the authors' prediction that skepticism is enhanced when accountability is high and the superior's view is unknown.

"Is the Objectivity of Internal Audit Compromised when the Internal Audit Function is a Management Training Ground?" by Anna Rose, Jacob Rose, and Carolyn Norman. Accounting & Finance 2013 53: 1001-1019.

This study examines whether internal audit is less objective when the internal audit function (IAF) is used as a training ground for senior management. Citing motivated reasoning, the authors hypothesize that when the IAF is used as a training ground for senior management, auditors are less likely to pressure management to reduce aggressive estimates. In addition, the authors hypothesize that this compromised objectivity will hold when the board of directors (BOD) has the power to choose future senior managers but not when management has that power. Their reasoning is that when the BOD has the power to choose future managers, internal audit will be less willing to challenge senior managers because it might impact their ability to work with those managers in the future. However, when that power rests with management, challenging management's aggressive accounting estimates could enhance the internal auditors' reputations. Seventy-four internal auditors took part in this experiment. The case involved a decision about whether the participants would challenge management's aggressive reporting of revenue from service contracts. The authors manipulated whether the IAF was a training ground for senior management and whether the BOD had the authority to choose future senior management. The authors found that auditor objectivity was compromised when both IAF was a training ground and the BOD had the power to choose senior management.


This analytical study considers the interactive effect of the auditor's incentive toward more conservative financial reporting and the independence of the board of directors. The author finds that more independent boards tend to decrease the likelihood of overstating earnings; however, this falls in line with the auditor's preference for conservatism, contributing to an increased likelihood of earnings understatements. The author also finds that a fully independent board may be suboptimal as the auditor may rely too heavily on the board's monitoring. This is likely to cause the auditor to reduce audit effort and avoid investigating potential adjustments that would increase earnings. These testable hypotheses may help explain inconsistent findings in the governance literature as well as offer support for mixed board composition, supporting much of the anecdotal evidence found in practice.


The authors examine audit fees and audit quality in 2008 and 2009 among financial firms. In that crisis environment, many financial firms were able to negotiate fee discounts with their auditor. Although the PCAOB has expressed concerns about low fee levels impacting audit quality, this study finds that those firms who received fee cuts had a higher validity to their loan loss provision. The authors suggest this implies that only those firms with high quality accounting assumptions were able to negotiate a fee cut. In sum, in the setting of one specific industry that was very central to the financial crisis of the 2000s, the study finds no evidence supporting the PCAOB’s concerns.


The authors of this study also examine audit fees and audit quality during the recent
financial crisis, although this study excludes financial institutions. In contrast to the previous study, the authors find that abnormally low fees were associated with a greater likelihood of restatement in 2008. Interestingly, this finding is only marginally significant in 2006 and is insignificant in both 2007 and 2009, suggesting the effect may have been temporary and short-lived. These results appear to be driven by more severe restatements, and did not vary by local-office attributes of the auditor.
Call for Submissions and Volunteers
Twenty-First Annual Midyear Auditing Section Conference

Dear Members,

Please make plans to attend the Twenty-First Annual Auditing Section Midyear Meeting in Miami, Florida January 15-17, 2015.

The Meeting will be held at the Hilton Miami Downtown. A limited number of rooms has been reserved at a rate of $199 per night inclusive of internet access, single or double. Please make your Hotel Reservations before December 15, 2014 to take advantage of this special room rate. Register Online for the Early Registration fee of $295 ($150 for doctoral students) through December 15, after which the Registration fee is $325 ($180 for doctoral students).

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 (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, contact the American Accounting Association at info@aaahq.org.

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

This year’s program will again include a pre-meeting Excellence in Auditing Education Workshop sponsored by the Section's Education Committee. The workshop will begin Thursday afternoon at 1:00 pm. The purpose of this Excellence in Auditing Education Workshop is to bring together auditing academics and auditing educators in professional practice to explore best practices relating to developing critical thinking skills in the classroom. Instructors include former Auditing Section President Scott Showalter, and others. The separate registration fee for the workshop is $75 and pre-registration is required. Seating is limited, so register early. Contact Tom Kozloski if you have questions about the workshop.

Doctoral Student Registration Information

The 16th Annual Auditing Section Doctoral Consortium chaired by Chris Agoglia will be held on January 15, preceding the Midyear Meeting. The purpose of the Consortium is to stimulate students’ research by exposing them to the latest ideas from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students, established auditing researchers, and journal editors. The Consortium is open to all Ph.D. students who have an interest in auditing research. Students may be at any stage in their program. Priority will be given to students who did not attend the 2014 consortium. In the event that there are more than two applicants from a school, we will contact the PhD coordinator to give a rank order of the candidates. There is no cost to apply or attend the Auditing Section Doctoral Consortium, if selected. Any student wishing to attend must complete the application process. The
deadline for consortium applications is November 3; the organizers will issue invitations to attend by November 12. Alternates will also be notified in case any invited students decide not to attend. To apply for an invitation to the Consortium, complete the PDF application form and email it to cpa22@isenberg.umass.edu.

Please note that the application for the Consortium is separate from registration for the Auditing Section Midyear Meeting (January 16-18) which follows the Consortium. Students wishing to register for the Midyear Meeting can do so by registering online by December 15, 2014. The Midyear Meeting student registration fee is $150 if registered by December 15 ($180 after December 15).

Make plans now to join us in Miami in January!

Regards,

Julia Higgs and Rani Hoitash 2015 Auditing Section Midyear Meeting Co-Chairs

Tom Kozloski Chair of the Auditing Education Committee

Chris Agoglia 2015 Auditing Section Doctoral Consortium Chair

Jay Thibodeau Auditing Section President

We thank the KPMG Foundation for its continued and generous support in sponsoring the 2015 Auditing Section Midyear Meeting and the 16th Annual Auditing Section Doctoral Consortium.
Call for Submissions
JISC2015-1st Journal of Information Systems Research Conference

The Journal of Information Systems (JIS) will hold the 1st JIS Research Conference (JISC2015) at the offices of the AICPA in Durham, NC on March 26 & 27, 2015. JIS is the research journal of the Accounting Information Systems (AIS) section of the American Accounting Association.

Conference Design

The design of JISC2015 is to provide an opportunity for intense discussion between academics and professionals on research in a targeted area of concern to the broad AIS community. The conference will involve research presentations, round-table discussions, and a keynote presentation. Attendance at the conference will be largely limited to those on the program: one member of each author team, commentators and panelists. If you have interest in attending the conference and will not be presenting a paper, please inquire by email (jis-editors@aaahq.org) as to the possibility of attendance. Each research paper presentation will have an academic and a professional commentator. Papers presented at JISC2015 will appear in a theme issue of JIS, edited by Dr. Diane Janvrin of Iowa State University and Dr. David Wood of Brigham Young University.

Topics

The focus of JISC2015 is on Information Technology auditing. Given the increasing importance of technology in all aspects of business and government, IT auditing has become a vital part of internal and external audit. Topics for the conference may include:

- The development and use of IT audit tools
- IT audit and governance, risk and compliance
- Skills development for IT audit
- IT audit in a world of big data
- Risk management for IT auditing
- Impact of IT risks on the financial statement audit
- Auditing IT risks within a SOX environment
- Level of maturity of IT auditing
- Auditing IT security
- Quantification of IT risks
- Auditing within a distributed computing environment and the cloud
- Planning IT audits
- Continuous audit
- IT audit and privacy
- Undertaking IT audits within a standards environment
- Using generalist auditors for undertaking IT audit engagements
Paper submission

Final papers should follow the JIS editorial policy and be submitted to JIS using the AAA's manuscript management system. Full details are available at www.jisonline.com. Papers accepted to JISC2015 also receive a conditional acceptance to JIS. Research teams are expected to improve their papers following the guidance from the academic and professional reviewers and from interaction at the conference. Papers not accepted for the conference may continue to receive editorial review by JIS.

Research methodologies

All research methodologies are welcome, including experimental, qualitative, field study, analytical, behavioral, archival, design science, and empirical.

Financial Support

The author team for each accepted paper will receive funding to help defray travel costs to attend the conference (e.g., plane tickets, hotel, etc.). Authors from the USA, Mexico, and Canada will receive $1,000. Authors from other countries will receive $1,500.

Deadlines

The deadlines for JISC2015 are:

- December 15, 2014: Research papers due.
- May 30, 2015: Revised papers due.

Additional information

If you are planning to submit to this conference, please email Diane Janvrin (djanvrin@iastate.edu) or David Wood (davidwood@byu.edu) by October 31st with the prospective title of the paper and a snapshot of the paper and research methodology. Because an important aspect of this conference is the active participation of practitioners, early notice of intended submissions will allow the editors to plan for practitioner participation with the review process.

Queries can be addressed to jis-editors@aaahq.org.

We thank the American Institute of Certified Public Accountants (AICPA) and CaseWare-IDEA Inc. for their generous support in sponsoring the 2015 Journal of Information Systems Conference.