



# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Report of the President

### Mark Peecher



It has been a true honor to serve as president and to work alongside so many of you. I look forward to continuing to serve once Audrey Gramling takes over as our new president in August. As my term winds down, I thank all of you for being so willing to actively participate in leadership roles. Despite extremely busy schedules, you have time and again said "yes" when asked to consider serving your colleagues, even though saying yes often requires significant devotion, time and

expertise.

In the rest of this letter, I summarize some recent developments and announcements and preview our meetings in Anaheim and St. Petersburg.

### 2008 PCAOB Symposium

In late April, the PCAOB hosted its fourth annual symposium at the Army-Navy Club in Washington, DC. Invitees included selected persons from our Section, the broader AAA, FASB, GAO and the SEC. The set of invitees collectively represented at least 27 different colleges or universities as well as a well-rounded set of research paradigms and methods. The symposium featured numerous open and lucid interactions amongst attendees, who also included several thought leaders from the PCAOB. As a result of such dialogue, I believe this event helped improve nearly everyone's understanding of pressing topics such as the PCAOB inspections process, auditing of fair value, international financial reporting standards, the future of the auditing profession, and the future of auditing research. On behalf of our Section, I want to express our sincere thanks to Gary Holstrum, Tom Ray, and Greg Scates for their work in continuing the collaboration between the Auditing Section and the PCAOB. I am most pleased to announce that I have come to learn that planning for the 2009 symposium is already underway!

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### **New AJPT Editor and Editorial Team**

This summer (June 2008) marks the traditional transition to a new Editor and Editorial Board at *Auditing: A Journal of Practice and Theory*. As such, I want to thank Dan Simunic for his dedicated service as outgoing Editor as well as each one of his set of expert Associate Editors: Jere Francis, Ferdinand Gul, Kathryn Kadous, Rachel Schwartz, Mike Stein, Ken Trotman, and Marleen Willekens. Your stewardship in assessing paper and providing feedback to authors has been invaluable.

At the same time, I want to once again extend a warm welcome to Ken Trotman as new AJPT editor. I would note that Ken already has been successful as Editor in that he too has amassed a wonderful set of Associate Editors: Michael Bamber, Jean Bedard, Chris Hogan, Robert Knechel, and Clive Lennox. With Ken's leadership and this superb set of AE's the Section can rest assured that AJPT will continue as a premier journal.

### **Be Sure to Vote!**

As you probably already know, the Section is most fortunate that Shaun Budnik, Deloitte & Touche USA and president of the Deloitte Foundation has agreed to run for the office of Vice President-Practice this summer. Voting is ongoing through **July 20**. [Click Here](#) for the ballot. The link was also provided in a related email message from me dated June 20, 2008.

### **Nominations welcomed (and needed!)**

Our Section has so many members who are deserving of strong consideration for leadership officer position and/or for one or more of our awards. The Nomination Committee, Executive Committee, and various Award Committees would appreciate the chance to consider a rich set of members during their deliberations. As such, please consider providing your nominees for two officer positions (Treasurer and V.P. Academic). Please send your nominations to me right away, before **July 1** by email to [peecher@uiuc.edu](mailto:peecher@uiuc.edu), as we will be holding elections for these two offices this fall.

Also, If you know someone who would be a deserving nominee for one of the Section's awards (i.e., *Notable Contribution*, *Outstanding Dissertation*, *Innovation in Auditing and Assurance Education Award*, *Distinguished Service Award*, *Outstanding Auditing Educator Award*), please take a moment to submit your nomination to Audrey Gramling by email to [agramli1@kennesaw.edu](mailto:agramli1@kennesaw.edu). She needs your nomination no later than **July 15!** Details about each award are posted on our [Section's website](#).

Finally, we are also soliciting nominations to serve a three-year term (beginning 3, 2009) as co-editor of *Current Issues in Auditing*. The nominee should have a good overall knowledge of developments in the

## **Summer 2008 Issue Deadline**

The deadline for materials to be included in the Fall 2008 issue of *The Auditor's Report* is September 30, 2008. The preferred format is a Word file attached to an e-mail message. We also are open to any proposals for materials that anyone would like to submit. Please send all material and proposals to the Editor at the address below by September 30, 2008, to ensure timely publication of the issue:

Duane M. Brandon, Editor  
Auburn University  
301 Lowder Business Building  
Auburn, AL 36849  
Phone: (334) 844-6215  
Email: [branddm@auburn.edu](mailto:branddm@auburn.edu)

The address of the Auditing  
Section's Home Page on the  
World Wide Web is:  
<http://aaahq.org/audit/index.htm>

topics covered by the journal and a dedication to its editorial philosophy. Please submit nominations to Ray Whittington via email to [rwhittin@depaul.edu](mailto:rwhittin@depaul.edu) no later than **October 1, 2008**.

### **AAA Annual Meeting — August 5–8, 2007**

I hope plan to join us at the AAA's 2008 Annual Meeting. The meeting's theme is "Building our Accounting Community, and it will be held August 3rd-8th in Anaheim. Chris Hogan, the Auditing Section's Annual Meeting Coordinator, is expertly heading up our program at the AAA meeting, with the assistance of Tim Louwers. Over 150 research and education-related papers were submitted for the Section's sponsored concurrent sessions. We are indebted to many of you who served as reviewers of these papers.

Our annual Section luncheon will be held Monday, August 4. I am pleased to announce that this year's luncheon speaker will be our own Shaun Budnik, who will bring us her unique perspective about how audit academics and practitioners can collaborate.

I also would highlight that one of our Section's most dedicated members, Zoe Vanna Palmrose, will be a plenary speaker at the Annual Meeting. She will speak on Tuesday about, "Science, Politics, the Media, and Accounting: Perspectives from the Potomac."

I hope to see you at both of these talks and other Section activities at the Annual Meeting!

### **2009 Auditing Section's Midyear Conference**

Brian Ballou and Chris Hogan are working hard to coordinate the Midyear Auditing Section Conference to be held January 15–17, 2009 at the Hilton Bayfront in St. Petersburg, FL. The deadline for paper submissions and session proposals is **September 1, 2008**. A Doctoral Consortium will be held on January 15, and we will also be offering our second-ever Excellence in Audit Education workshop as part of the conference. Mark Zimbelman is serving as the Doctoral Consortium Chair and Ray Whittington is heading up the Excellence in Audit Education workshop. For more information, please check the Section's website.

### **Outgoing and Incoming Officers**

I would be remiss if I were to conclude this report without expressing my deepest thanks to the outgoing officers. It has been a genuine privilege to have served with and learned from Ray Whittington (Past-President), Trevor Stewart (Vice-President Practice) and Julia Higgs (Secretary). They will rotate off the Executive Committee at the August AAA meetings. Each of these individuals has worked diligently on our behalf. While we will miss their contributions going forward, we are elated to welcome three new members of the Executive Committee: Urton Anderson — (Vice President – Academic), Jay Thibodeau (Secretary), and

Jean Bedard (Historian).

See you in Anaheim!





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## ASB Update

Prepared for *The Auditor's Report*, Summer 2008

**Doug Prawitt, Brigham Young University**  
**Member of the AICPA Auditing Standards Board**

In my last update, I provided a list of each of the Auditing Standards Board's task forces along with a brief summary of what each task force is working on. In this update I focus on three separate issues: 1) the ASB's revision of AT Section 501 and SAS No. 112; 2) the ASB's update to SAS No. 69; and 3) the progress of the ASB's Clarity Project.

Before I address these specific issues, however, I would like to briefly address a broader matter that is of central importance to auditors and auditing academics. While every effort is being made by the ASB to minimize divergence between its standards and those of the PCAOB and the IAASB, significant discrepancies persist, and current levels of cooperation and convergence are clearly less than optimal. Auditing Section members should consider whether the current auditing standards-setting structure makes sense. With today's system, an auditing firm that works with U.S. public companies, U.S. non-registrants, and international clients must stay abreast of three divergent sets of auditing standards. The current system presents auditing educators with serious challenges given time and resource constraints in accounting curricula. These challenges are especially critical in view of the concurrently increasing emphasis on international financial reporting standards. I strongly encourage members to give careful thought to these issues and to make their voices heard.

### Internal Control Task Force

The ASB's AT Section 501, *Reporting on an Entity's Internal Control over Financial Reporting*, was initially revised to align with the PCAOB's Auditing Standard (AS) 2. However, AS 2 was superseded by AS 5 in 2007, and the IAASB has proposed a new ISA regarding the communication of internal control deficiencies as part of a financial statement audit. The ASB's Internal Control Task Force responded by developing replacements for AT 501 and AU 325. The newly proposed AT 501 aligns closely with AS 5, including aligning the definitions of significant deficiency and material weakness. SAS 112 (AU 325), *Communicating Internal Control Related Matters Identified in an Audit*, was also initially revised to align closely with AS 2. Accordingly, the ASB's Internal Control Task Force also developed a revision to AU 325 that will align closely with AS 5 terminology. The ASB voted the proposed revised AT 501 and AU 325 for exposure at its May 2008 meeting.

The proposed effective dates for AT 501 and AU 325 are December 15, 2008 and June 30, 2009, respectively. The effective date for AT 501 was proposed in response to requests from regulators (e.g. the FDIC) that the revision be available for integrated audits of regulated entities (e.g. non-registrant financial institutions) for the year ending December 31, 2008. The effective date for AU 325 is proposed to be later as this change will impact far more auditors of non-public companies; a later effective date will allow more time for firms to train for and apply the revised standard. However, early adoption is encouraged.

### **Revision to SAS No. 69**

During May 2008, the Auditing Standards Board voted to amend SAS No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles, For Nongovernmental Entities*. The ASB's new SAS (numbering to be determined) will remove the GAAP hierarchy for nongovernmental entities from the auditing literature in view of FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, issued in May 2008. This SFAS appropriately places the GAAP hierarchy in the domain of financial accounting standards.

The ASB's amendment to SAS No. 69 was initially issued in 2005. However, it was placed on hold when the FASB delayed final issuance of its statement after learning that the PCAOB was undertaking a project relating to the GAAP hierarchy. In January 2008, the PCAOB adopted Auditing Standard No. 6, *Evaluating Consistency of Financial Statements* (AS 6), which will become effective 60 days after presumed approval by the Securities and Exchange Commission (SEC). AS 6 eliminates the GAAP hierarchy from the PCAOB's interim auditing standards. The SAS will be issued when the SEC approves AS 6 to ensure that the effective date matches that of AS No. 6 and FASB Statement No. 162.

### **The Clarity Project**

As indicated in previous ASB Updates, the purpose of the ASB's Clarity Project is to redraft the entire body of existing AICPA auditing standards to a format that clearly sets forth objectives and relevant definitions, and that clearly delineates requirements and application material. The "news" since my last update is that this project is now moving forward at an accelerated pace. The ASB will hold an additional meeting each year for the next two to three years and has added extra days to currently scheduled meetings to provide time to move ahead expeditiously. It is anticipated that revision of the existing standards into the new clarity format will take two to three years. While the primary purpose of the clarity project is to enhance the understandability of the standards, my personal view is that significant substantive changes will be made in the process. My experience is that once the proverbial "door" is open on a standard, it is difficult to limit the changes.

The pace of change in the auditing standards world likely has never been more rapid—it is important for Auditing Section members to stay tuned and to exert influence where possible!

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## GAO Update

Prepared for *The Auditor's Report*, Summer 2008

By Jeanette Franzel and Maxine Hattery\*\*

### GAO Bids Farewell to Former CG Walker, Welcomes Acting CG Dodaro

Comptroller General David M. Walker resigned March 12, 2008, in order to accept the position of President and Chief Executive Officer of the newly established Peter G. Peterson Foundation. During more than 9 years as Comptroller General, Mr. Walker led a major transformation effort at the GAO and worked domestically and internationally to modernize the accountability profession. He has been an outspoken, nonpartisan advocate for taking action to meet the nation's major fiscal sustainability challenge, and he plans to continue with that mission in his new position.



Gene L. Dodaro

Taking over the leadership as Acting Comptroller General is Gene Dodaro, who served in the number two leadership position in the agency for the last 9 years. As Chief Operating Officer, Mr. Dodaro led the development of GAO's strategic plans for serving the Congress and improving government in the 21st century. He also directed GAO's high-risk program, which focuses attention on and proposes solutions for major management challenges across the federal government. Mr. Dodaro likewise played a key role in guiding the agency's efforts to highlight current and emerging issues that warrant attention from policymakers. His management efforts ensured that GAO met the Congress's need for reliable, timely, and relevant information on government operations. Mr. Dodaro also oversaw the development and issuance of hundreds of reports and testimonies to the Congress annually.

Mr. Dodaro joined GAO in June 1973 and held executive positions in its General Government and Accounting and

Financial Management Divisions. In 1993, he was named Assistant Comptroller General for Accounting and Information Management, the post he held until 1999, when he became GAO's second in command. Throughout his career, Mr. Dodaro has been involved with key government accountability and management issues, including leading the first-ever audit of comprehensive financial statements covering all federal departments and agencies for fiscal

year 1997—one of the largest and most complex audits in history. He helped conceive GAO's strategy for improving computer security throughout government and led the updating of standards for internal control in the federal government. And he has played an important role in representing the agency in the accountability community and at conferences and meetings, both in United States and abroad.

Mr. Dodaro has testified many times before the Congress and has worked closely with the Congress and various administrations on major management reform initiatives, including the 1994 Government Management Reform Act, which expanded the Chief Financial Officers Act; the revised 1995 Paperwork Reduction Act and the Clinger-Cohen Act of 1996, which require agencies to implement modern management practices for information technology management; and the 1996 refinements to the Single Audit Act, which outlines requirements for audits of federal assistance to state and local governments.

### **GAO Plans for Presidential Transition 2009**

1. The first change in presidential administrations in eight years is less than a year away. The transfer of power will bring with it a new cohort of presidential appointees and others new to the ways and intricacies of the federal government. To make this transition as smooth as possible for all involved, federal agencies will help guide the newcomers and GAO will play an important role. Already, GAO has begun to plan for fulfilling its legislative mandate to advise to the incoming administration, and to help orient new members of Congress as well.
2. Formal provision for the orderly transfer of executive power from one presidential administration to the next was enacted in the Presidential Transition Act of 1963, which provides for federal funding and requires financial disclosures by presidential appointees. In 2000, as transition grew more complex, the act was amended with provisions for the training of presidential appointees. This orientation process carries particular significance for an incoming administration that, for the first time since 1952, will be the administration of a President who was not the incumbent President or Vice President.

As the investigative arm of Congress and charged with helping to improve the performance and accountability of the federal government, GAO will reach out to new cabinet members and their staff with an objective view of what is working, areas of biggest risk, and recommendations that need to be implemented. GAO is preparing reports, transition Web sites, and other materials that will highlight the government's major management challenges at individual agencies and governmentwide. This effort includes an update of the high-risk list, with the addition of the 2010 Census. Given the security concerns entailed by the first post-9/11 presidential transition, GAO will review agency plans, with a particular focus on homeland security. Finally, GAO will monitor the transition to capture and highlight lessons learned for possible future revisions to the Presidential Transition Act.

GAO's transition reports will be available, as they are completed, at <http://www.gao.gov/pas.html>.

### **GAO Hosts Mini-Fellowship for Iraqi Auditors**

Six professionals from Iraq's Bureau of Supreme Audit (BSA) spent six weeks at GAO in February and March learning the basics of performance auditing. The objective of the program was to help further develop the capacity of Iraq's BSA as it strives to fulfill its role in ensuring proper oversight and accountability for the expenditure of funds in Iraq.

The program was developed in response to a request for help from BSA president Abdulbasit Turki Saeed. GAO provided the training under a memorandum of understanding with the State Department's Bureau for International Narcotics and Law Enforcement Affairs. Designed especially for the Iraqi visitors, the program was an abbreviated version of the course of study offered to auditors from around the world through the International Auditor Fellowship Program.

In addition to classes on GAO's approach to performance auditing, the visitors received briefings from and attended meetings with officials from other organizations, including the Special Inspector General for Iraqi Reconstruction (SIGIR), Treasury's Office of Technical Assistance, and the Office of Government Ethics. The USDA Graduate School also provided training to supplement GAO's curriculum. Aiding the students throughout the training was a new, Arabic translation of the latest edition of the Yellow Book and related forms and templates. To help them spread the wealth of their knowledge on their return to BSA, the students also took a course in basic instructional skills.

### **Selected Reports and Testimonies**

**DOD Health Care:** Mental Health and Traumatic Brain Injury Screening Efforts Implemented, but Consistent Pre-Deployment Medical Record Review Policies Needed [GAO-08-615](#), May 30, 2008

**Combating Terrorism:** U.S. Efforts to Address the Terrorist Threat in Pakistan's Federally Administered Tribal Areas Require a Comprehensive Plan and Continued Oversight [GAO-08-820T](#), May 20, 2008

**The Nation's Long-Term Fiscal Outlook:** April 2008 Update [GAO-08-783R](#), May 16, 2008

**Workforce Development:** Community Colleges and One-Stop Centers Collaborate to Meet 21st Century Workforce Needs [GAO-08-547](#), May 15, 2008

**Higher Education:** Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes [GAO-08-717T](#), May 1, 2008

**Highlights of a Forum Convened by the Comptroller General of the United States:** Improving the Federal Government's Financial Management Systems [GAO-08-447SP](#), April 16, 2008

**Highlights of a Forum Convened by the Comptroller General of the United States:** Strengthening the Use of Risk Management Principles in Homeland Security [GAO-08-627SP](#), April 15, 2008

**Stabilizing and Rebuilding Iraq:** Actions Needed to Address Inadequate Accountability over U.S. Efforts and Investments [GAO-08-568T](#), March 11, 2008

**Housing Government-Sponsored Enterprises:** A Single Regulator Will Better Ensure Safety and Soundness and Mission Achievement [GAO-08-563T](#), March 6, 2008

**Hedge Funds:** Regulators and Market Participants Are Taking Steps to Strengthen Market Discipline, but Continued Attention Is Needed [GAO-08-200](#), January 24, 2008

**State and Local Governments:** Growing Fiscal Challenges Will Emerge during the Next 10 Years [GAO-08-317](#), January 22, 2008

**Audits of Public Companies:** Continued Concentration in Audit Market for Large Public Companies Does Not Call for Immediate Action [GAO-08-163](#), January 9, 2008

**Audits of Public Companies:** Survey of Public Accounting Firms and Public Companies (GAO-08-164SP, January 2008), an E-supplement to GAO-08-163 [GAO-08-164SP](#), January 9, 2008

**Energy Markets:** Increasing Globalization of Petroleum Products Markets, Tightening Refining Demand and Supply Balance, and Other Trends Have Implications for U.S. Energy Supply, Prices, and Price Volatility [GAO-08-14](#), December 20, 2007

\*\* **Jeanette Franzel**, Director, Financial Management and Assurance; **Maxine Hattery**, Financial Management and Assurance; U.S. Government Accountability Office.

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## PCAOB Standards Update\*

Prepared for *The Auditor's Report*, Summer 2008

By Gary Holstrum, Thomas Ray, and Gregory Scates\*\*

This update addresses selected PCAOB standards-setting developments since the [Spring 2008 Update](#) that are likely to be of interest to accounting and auditing researchers, educators, and students. These developments include a proposed new auditing standard on engagement quality review, new ethics and independence rules related to tax services and communication with audit committees, issues addressed at the 2008 PCAOB Symposium, and an update of the status of PCAOB research synthesis projects.

**Engagement Quality Review:** On February 26 the Board proposed for public comment a new auditing standard on engagement quality review and a conforming amendment to the Board's interim quality control requirements. Section 103 of the Sarbanes-Oxley Act of 2002 directs the Board to include in its auditing standards a requirement that each registered public accounting firm "provide a concurring or second partner review and approval of [each] audit report (and other related information), and concurring approval in its issuance." The proposed standard, which would apply to all engagements performed in accordance with the standards of the PCAOB, is risk-based and designed to increase the likelihood that engagement deficiencies will be identified and corrected prior to the issuance of the auditor's report. The proposed standard provides a firmer framework for an engagement quality reviewer to objectively evaluate the significant judgments made by the engagement team and the conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report. The comment period for the proposed standard ended May 12 and the comments are posted on the Board's Web site, under [Rulemaking Docket 25](#).

**Ethics and Independence Rules on Tax Services and Communication with Audit Committees:**

On April 22 the PCAOB voted to adopt a new Ethics and Independence Rule (#3526) to enhance communication between registered firms and audit committees regarding the firm's independence and to amend a rule (#3523) on tax services for persons in financial reporting oversight roles. Rule 3526 will require a registered public accounting firm, before accepting an initial engagement pursuant to the standards of the PCAOB, to describe in writing to the audit committee all relationships between the firm or any of its affiliates and the issuer or persons in a financial reporting oversight role at the issuer that may reasonably be thought to bear on the firm's independence. Registered firms will also be required to discuss with the audit committee the potential effects of any such relationships on the

firm's independence. Rule 3526 will require firms to make a similar communication annually for continuing engagements.

The Board also adopted an amendment to Rule 3523 on independence and tax services. As originally adopted by the Board, the rule provided that a registered public accounting firm is not independent of its audit client if it or any of its affiliates provides any tax service to a person in a financial reporting oversight role or an immediate family member of such a person **during the audit and professional engagement period**. The Board determined that providing tax services to such a person during the portion of the audit period preceding the beginning of the professional engagement period does not necessarily impair a firm's independence. Therefore, the Board amended the rule to exclude (from the scope of the rule) tax services provided during the portion of the audit period that precedes the beginning of the professional engagement period.

**2008 PCAOB Symposium Issues:** Approximately 40 auditing researchers and educators, along with 35 people from the PCAOB and representatives from the SEC, FASB, and GAO, participated in the 2008 PCAOB Symposium on April 24-25 in Washington, DC. The Symposium, which was jointly planned by representatives of the Auditing Section and the PCAOB, included discussions of recent PCAOB standards and standards-setting projects, PCAOB inspections, audits of fair value measurements, the impact of International Financial Reporting Standards, the future of the auditing profession, future auditing research and education, and the role of the PCAOB.

**Status of PCAOB Research Synthesis Projects:** The PCAOB Research Synthesis Program, which included teams of auditing research teams formed by the Auditing Section Executive Committee, has contributed significant research input for nine of the standards-setting projects. All nine of the research synthesis reports have been published, accepted for publication, or conditionally accepted for publication, subject to acceptable revisions. The attached report shows the status and publication information for all of the projects as of May 2, 2008.

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**\*\*Gary Holstrum** is a consultant in the PCAOB Office of Chief Auditor (formerly PCAOB Associate Chief Auditor and Director of Research).

**Thomas Ray** is PCAOB Chief Auditor and Director of Professional Standards.

**Gregory Scates** is PCAOB Deputy Chief Auditor.

\* Note the hyperlinks to the PCAOB Web site ([www.pcaobus.org](http://www.pcaobus.org)) and to the [Auditing Section web site](#). A convenient history of PCAOB standards-setting activity and related briefing papers are available through the hyperlinked previous PCAOB Standards-Setting Update articles in the [Spring 2005](#), [Summer 2005](#), [Fall 2005](#), [Spring 2006](#), [Summer 2006](#), [Fall 2006](#), [Spring 2007](#), [Summer 2007](#), [Fall 2007](#), and [Spring 2008](#) issues of *The Auditor's Report*. The views expressed in this article are those of the authors and not necessarily those of the PCAOB, individual Board members, or other PCAOB staff. Responses to the article or related research may be emailed to [holstrumg@pcaobus.org](mailto:holstrumg@pcaobus.org).

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## Research Synthesis Teams

(Hyperlinks are to article abstracts, where readers can obtain copies of complete articles)

| Project Team                            | Team Leader   | Project Team Members  | Project Status (as of 5-2-2008)   |
|---|---|---|---|
| 1. Audit Confirmations                  | Randy Elder<br>(Syracuse)                             | Paul Caster (Fairfield)<br>Diane Janvrin (Iowa State)   | Completed report presented at AAA Auditing Section Mid-Year Meeting in January 2007 and conditionally accepted for forthcoming publication in <i>Auditing: A Journal of Practice and Theory</i> .   |
| 2. Audit Firm Quality Control           | Jean Bedard<br>(Bentley College)                      | Donald Deis (Texas A&M – Corpus Christi)<br>Greg Jenkins (Va. Tech)<br>Mary Curtis (U of North Texas) | Published 2 research synthesis articles (1) on Firm Culture & Governance in <a href="#">Behavioral Research in Accounting (2008, Volume 20:1)</a> & (2) Risk Monitoring in <a href="#">Auditing: A Journal of Practice and Theory in May 2008</a> . |
| 3. Audit Reporting Model                | Bryan Church<br>(Georgia Inst. of Tech.)              | Susan McCracken (U of Toronto)<br>Shawn Davis (Washington U)  | Article published in <a href="#">Accounting Horizons in March 2008</a> .  |
| 4. Auditor Risk Assessments             | Dana Hermanson<br>(Kennesaw)                          | Bob Allen (Utah)<br>Tom Kozloski (Wilfrid Laurier—Canada)<br>Bob Ramsay (Kentucky)                    | Article published in <a href="#">Accounting Horizons in June 2006</a> .   |
| 5. Communications with Audit Committees | Arnie Wright<br>(Boston College, now at Northeastern) | Jeff Cohen (Boston College)<br>Lisa Gaynor (South Florida)<br>Ganesh Krishnamoorthy (Northeastern)    | Article published in <a href="#">Accounting Horizons in June 2007</a> .   |
| 6. Engagement Quality Review            | Arnie Schneider<br>(Georgia Tech.)                    | William Messier (Georgia State. Now at UNLV)  | Synthesis article accepted for publication in the <i>Managerial Auditing Journal</i> . A related study published in <a href="#">Auditing: A Journal of Practice and Theory in November 2007</a> .   |
| 7. Fair Value                           | Roger Martin<br>(Virginia)                            | Jay Rich (Illinois State)<br>Jeff Wilks (Brigham Young)   | Article published in <a href="#">Accounting Horizons in September 2006</a> .  |
| 8. Financial Fraud                      | Chris Hogan<br>(Michigan State)                       | Zabi Rezaee (Memphis)<br>Dick Riley (West Virginia)<br>Uma Velury (Delaware)                          | Article accepted for forthcoming publication in <i>Auditing: A Journal of Practice and Theory</i> in Fall 2008.   |
| 9. Related Party Transactions           | Elaine Henry<br>(Miami)                               | Elizabeth Gordon (Rutgers)<br>Tim Louwers (James Madison)<br>Brad Reed (Southern Illinois)            | Article published in <a href="#">Accounting Horizons in March 2007</a> . Follow-on study presented at Auditing Section Mid-Year Meeting in January 2007.  |



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## Have You Seen...?

**Sudip Bhattacharjee, Virginia Tech  
Duane Brandon, Auburn University and  
Gary Peters, University of Arkansas**

**“Effect of Different Types of Feedback on the Level of Auditors’ Configural Information Processing”**, by P. W. Leung and K. T. Trotman, *Accounting & Finance*, (Volume 48, Issue 2, 2008): 301–318.

This paper examines the impact of four different forms of feedback (outcome, task properties, cognitive and combined) on increasing the extent of configural information processing by auditors (i.e. jointly considering the impact of different cues). Audit seniors participated in the study and made a series of judgments of the risk of misstatement of an account balance. The results indicate that task properties, cognitive, and combined (task properties plus cognitive) feedback all lead to increased configural information processing. There is no impact of outcome feedback. The authors also find that the extent of configural processing is positively associated with their measure of judgment performance.

**“Internal Audit Sourcing Arrangement and the External Auditor's Reliance Decision”**, by S. M. Glover, D. F. Prawitt, and D. A. Wood, *Contemporary Accounting Research*, (Volume 25, Issue 1, 2008): 193-213.

This paper examines the effects of internal audit sourcing arrangement on the external auditor's reliance decision in the presence of different levels of inherent risk and task subjectivity. External auditors from a Big 4 firm completed an experimental case which manipulated internal audit sourcing, inherent risk, and task subjectivity. Results indicate an interaction between sourcing and inherent risk such that external auditors rely more on outsourced than in-house internal auditors when the level of inherent risk is high but do not differentiate on the basis of sourcing arrangement when inherent risk is low. Although the authors find that reliance is lower for subjective than for objective tasks, they do not find an interaction between sourcing arrangement and subjectivity of the work performed.

**“Judging Audit Quality in Light of Adverse Outcomes: Evidence of Outcome Bias and Reverse Outcome Bias”**, by M. E. Peecher and M. D. Piercey, *Contemporary Accounting Research*, (Volume 25, Issue 1, 2008): 243-274.

This study seeks to empirically isolate the extent to which commonly observed outcome effects actually reflect outcome bias when judging audit quality. A key question is whether individuals' belief revision from adverse audit outcomes is too large (outcome bias), or too small (reverse outcome bias). In two experiments, participants revise their likelihood judgments about auditor negligence in response to adverse outcome information. The study compares their revised judgments against their own Bayesian revised judgments. Consistent with the hypotheses, the study finds that individuals' judgments of auditor negligence exhibit outcome bias when their own Bayesian probabilities of negligence fall below the vicinity of 40 percent, but also exhibit reverse outcome bias when such probabilities lie above the 40 percent vicinity.

**“Internal Audit, Alternative Internal Audit Structures and the Level of Misappropriation of Assets Fraud”**, by P. Coram, C. Ferguson, and R. Moroney, *Accounting & Finance*, In Press.

This study assessed whether organizations with an internal audit function are more likely to detect and self-report fraud than those without. The fraud data was from the 2004 KPMG Fraud Survey, which reported fraud from 491 organizations in the private and public sector across Australia and New Zealand. The internal audit data was from a separate mail survey sent to the respondents of the KPMG Fraud Survey. The authors find that organizations with an internal audit function are more likely than those without such a function to detect and self-report fraud. Furthermore, organizations that rely solely on outsourcing for their internal audit function are less likely to detect and self-report fraud than those that undertake at least part of their internal audit function themselves.

**“Non-Audit Fees, Long-Term Auditor-Client Relationships and Earnings Management”**, by S. Cahan, D. Emanuel, D. Hay, and N. Wong, *Accounting & Finance*, (Volume 48, Issue 2, 2008): 181-207.

Prior research documents inconclusive evidence regarding the impairment of audit quality (independence) caused by non-audit services. The current study extends the prior literature by considering whether the length of time in which non-audit fees are received or whether the growth rate of these fees impacts audit quality. Similar to prior audit quality research the author's do not find support for the above associations. However, the author's findings do raise the issue as to potential impact of client importance on the association between discretionary accruals and the length of time that non-audit fees are received.

**“Evidence on the Impact of Internal Control and Corporate Governance on Audit Fees”**, by D. Hay, W. R. Knechel, and H. Ling, *International Journal of Auditing* (Volume 12, Issue 1, 2008): 9–24

The authors of this study examine the mixed findings in prior literature regarding the association between audit fees and strength of internal controls and governance. In particular, the authors examine whether the association reflects a substitution effect vs. complements effect. In general, the results of this study are consistent with a complements view, where the demand for external audit services is positively associated with the strength of internal audit, governance, and ownership concentration. The authors discuss complexity of the above associations resulting from the variety of agency issues, relevant risks, and availability of controls present within the firm. The authors also highlight the potential implications of these associations within industries with varying degrees of regulation.

**“Management Turnover Following Auditor Resignations”**, by K. Menon and D. D. Williams. *Contemporary Accounting Research* (Volume 25, No. 2. 2008): 567-604.

Building upon the recent executive turnover literature, this study examines the pattern of CEO and CFO turnovers following auditor resignations. The authors find that the likelihood of CEO and CFO turnover is greater among firms who experience auditor resignations versus those firms who dismiss their auditors. The author’s argue the executive turnover reflects a desire to improve financial reporting credibility and financial performance.

**“Does the SOX Definition of an Accounting Expert Matter? The Association Between Audit Committee Directors Accounting Expertise and Accounting Conservatism”**, by G. V. Krishnan and G. Visvanathan, *Contemporary Accounting Research*, In Press.

This paper investigates whether having non-accounting experts (versus accounting experts) serving on the audit committee affects the quality of financial reporting. The authors use a sample of S&P 500 firms to examine whether the committee's financial expertise is associated with accounting conservatism, a fundamental characteristic of financial reporting. The results suggest that an audit committee's financial expertise is positively associated with conservatism when financial expertise is defined to include only accounting experts. However, the results are conditional upon the firm's overall corporate governance. For weak boards, accounting financial expertise is ineffective in promoting conservative accounting.

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Call for Submissions

### Fifteenth Annual Midyear Auditing Section Conference

Mark your calendars now for the Fifteenth Annual Midyear Auditing Section Conference that will be held January 15–17, 2009 at the [Hilton Bayfront](#) in St. Petersburg Florida. A Doctoral Consortium will be held on January 15, and we will also be offering another Excellence in Audit Education workshop as part of the conference. The remainder of the conference will consist of keynote, plenary, and concurrent sessions dealing with a wide variety of contemporary topics related to audit, attestation and assurance practices, education, and research. You are encouraged to contribute to the program through submissions of auditing/attestation/assurance research and education papers (including instructional cases), and special session proposals. In addition, the section will rely on your help in planning and conducting the conference and in providing suggestions for session topics, panels, and/or workshops. Please consider volunteering to participate as a reviewer, discussant, and/or moderator by contacting either of the co-chairs, Professors Brian Ballou and Chris Hogan.

#### SUBMISSION GUIDELINES

Research papers should follow the style and submission guidelines of *Auditing: A Journal of Practice & Theory*, including the requirement to submit separate electronic files containing the cover page and the paper itself<sup>1</sup>. Instructional cases should be in a format similar to that used in *Issues in Accounting Education*. Submissions are not eligible for consideration if they: 1) have been published or accepted for publication, 2) were presented at the 2008 AAA Annual Meeting, or 3) were presented at more than one AAA regional meeting or other academic conference. Papers presented at the Research Forum of the AAA Annual Meeting are eligible for consideration. It should be noted that papers accepted for presentation at the 2009 Midyear Auditing Section Conference may also be submitted for presentation at the AAA Annual Meeting scheduled for August 2009.

#### SUBMISSION DEADLINE

Submission should be made **by e-mail only** to either:  
Professor Brian Ballou, Miami University OR  
Professor Chris Hogan, Michigan State University at  
[AMC2009@bus.msu.edu](mailto:AMC2009@bus.msu.edu)

Submissions must be received by **September 1, 2008**, to be considered for the program. Early

submission is highly encouraged. Any questions should be addressed to Brian Ballou or Chris Hogan via the above email.

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Announcement and Call for Papers

### University of Florida International Conference on Assurance and Governance January 13-14, 2009

The Florida International Center for Research in Accounting and Auditing (ICRAA) and Ernst & Young are pleased to announce the fourth *University of Florida International Conference on Assurance and Governance* on January 13 and 14, 2009. The conference will be held at the Hilton University of Florida Conference Center in Gainesville Florida.

We are currently soliciting papers for the conference. There is a broad range of topics suitable for the conference and submitted papers should address issues related to various aspects of auditing, assurance, control, earnings management and/or governance. Papers submitted to the Auditing Section Mid-Year Meeting are not eligible. Authors who wish to have their papers considered for the conference should send them to:

**W. Robert Knechel, Director  
International Center for Research in Accounting and Auditing  
Fisher School of Accounting  
University of Florida  
PO Box 117166  
Gainesville, FL 32611  
USA**

**Or by email to: [w.knechel@cba.ufl.edu](mailto:w.knechel@cba.ufl.edu)**

We are also soliciting suggestions for panel discussions, discussants and a plenary session. Please let us know if you have suggestions for the program.

The submission deadline is **August 20, 2008**. Authors of accepted papers will be notified by September 20, 2008. The final version of an accepted paper will be due December 1 to provide discussants adequate time to prepare remarks. Papers will be made available to attendees approximately two weeks before the conference.

The Conference is scheduled to coincide with the AAA Auditing Section Mid-Year Meeting to be held in St. Petersburg Florida on January 15-17, 2009. Gainesville is located approximately 100 miles from

the Orlando Airport and 120 miles from the Tampa Airport. St. Petersburg is just south of Tampa. We will provide bus transportation from Gainesville to St. Petersburg on the morning of January 15, arriving in time to attend the pre-conference CPE sessions. Many airlines and rental car companies allow travelers to arrive and depart from different airports in Florida at no extra cost. Flights directly to Gainesville go through Atlanta (Delta) or Charlotte NC (US Airways).

[More Information about the Auditing Section Mid-Year Meeting Here.](#)

Due to the kind support of Ernst & Young, the nominal fee for the conference is \$125, which covers two breakfasts, one lunch, the conference dinner, all conference materials and bus transportation from Gainesville to St. Petersburg. The fee will be waived for presenters. Also, up to two nights lodging will be provided for presenters. You can register your interest in attending the conference or obtain additional information by sending an email to Kathy Murphy [kathy.murphy@cba.ufl.edu](mailto:kathy.murphy@cba.ufl.edu) by October 15.

A block of hotel rooms has been arranged at the Hilton University of Florida Conference Center at the rate of \$129.00 per night. To obtain the conference rate, **please contact the hotel directly at 352-371-3600 or toll-free in the US at 1-800-HILTONS.** The hotel will honor the conference rate until December 12, 2008. To receive the conference rate mention the "University of Florida International Conference on Assurance and Governance".

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