



THE AUDITOR'S REPORT

Volume 32, No 2
Winter 2009

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Report of the President

Audrey Gramling



Thank you again for providing me the opportunity to serve as the Auditing Section President for 2008–2009. I continue to be so impressed by the number of our members who are willing to work diligently on behalf of the Auditing Section. As a result of the efforts of so many of you over the years, the Auditing Section has accomplished a great deal and has a number of new initiatives in process. I will use this column to highlight some of those accomplishments and new initiatives.

2009 Midyear Conference

The Midyear Conference was very successful. Brian Ballou and Chris Hogan did an outstanding job as the Co-Chairs of the Conference Planning Committee. Brian and Chris were assisted by Jennifer Joe and Susan Shu, who coordinated the manuscript review process for the 2009 Conference and will Co-Chair the 2010 Midyear Conference. Thank you to all of the individuals who acted as moderators, discussants, and reviewers for the conference. Our thanks also go out to Dee Strahan's on-site team for their valuable assistance.

Finally, the Auditing Section is indebted to the KPMG Foundation for its continued generous support of our Midyear Conference and Auditing Section Doctoral Consortium. While we missed seeing Bernie Milano, President of the KPMG Foundation, at the Midyear Conference we were very pleased that Bea Sanders and Manny Fernandez were able to join us.

See the various articles on the Midyear activities for a summary of the many highlights of this Conference.

2009 Auditing Section Doctoral Consortium

The Auditing Section continued the tradition of hosting a Doctoral Consortium just prior to the Midyear Conference. Ph.D. students attended presentations by some of the finest audit

INSIDE

Features

[Views from the Profession](#)

[Committee Spotlight](#)

[Summary of 2009 Auditing Midyear Conference](#)

[Auditing Section Doctoral Consortium](#)

[2009 Distinguished Service in Auditing Award](#)

[2009 Outstanding Educator Award](#)

[2009 Notable Contributions to the Auditing Literature Award](#)

[2009 Auditing Section Outstanding Dissertation Award](#)

[Section Financial](#)

researchers and were also able to interact with those researchers during breakout sessions during the Consortium. Mark Zimbelman, assisted by Brain Mayhew, planned the 2009 Annual Doctoral Consortium. The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas from leading researchers in auditing. The Consortium also provides opportunities for networking with other Ph.D. students interested in auditing, established auditing researchers, and journal editors. By all accounts, this year's Consortium clearly achieved this purpose. Thanks again to the KPMG Foundation for its generous support for this year's Consortium. This Consortium is so important to increasing Ph.D. students' interest in focusing on auditing in both their teaching and research activities.

Section Awards Announced

Auditing Section awards were announced at the Midyear luncheons on Friday and Saturday. At Friday's luncheon, Gary Holstrum was awarded the 2009 Distinguished Service Award, and Bill Messier and Stan Biggs were each awarded the 2009 Outstanding Auditing Educator Award. Those of us who know these individuals certainly recognize that they are all very deserving of these awards.

At Saturday's luncheon three other awards were announced. Steve Salterio and Alan Webb accepted the 2009 Notable Contributions to the Auditing Literature Award on behalf of themselves and their coauthor, Mike Gibbons, for their paper titled " Auditor-Client Negotiation about the Client's Financial Reporting." The Outstanding Dissertation was awarded to Jonathan Stanley who received a plaque and a monetary award of \$2,500. His dissertation chair, Todd DeZoort, also received a plaque. For the first time, the Auditing Section provided an award to the Outstanding Ph.D. Student Paper submitted to the Conference. This award was presented to Jaime Schmidt who received a plaque and monetary award of \$1,500 for her award winning paper titled "Financial Statement Misstatements, Auditor Litigation, and Subsequent Auditor Behavior." Jaime is a Ph.D. student at Texas A&M where her advisor is Mike Wilkins. Congratulations to these outstanding researchers!

Second Annual Auditing Education Workshop --Enhancing Audit Education

A primary objective of this workshop is to provide a platform in which academics and practitioners can exchange ideas and work together to strengthen audit education. A special thanks to Ray Whittington for his planning and leadership of this event. We greatly appreciate the many academics and practitioners who served as panelists and presenters throughout the workshop. The feedback from the Workshop was very positive and we are planning on offering a third workshop in conjunction with our 2010 Midyear Conference. If you have ideas for the 2010 Workshop, please contact Mark Peecher who has agreed to plan this event.

In case you missed the 2009 workshop, the materials from the workshop, including an update on the state of existing audit coursework, and some very interesting auditing cases and classroom tools dealing with professional skepticism, ethics, auditor independence, fair value, and IFRS will be available at the AAACommons. The program for the workshop is available at http://aaahq.org/meetings/2009AUD_workshop.htm.

Officer Elections

At the Annual Business Meeting, Jay Thibodeau, Secretary, announced the results of the

[Statements](#)

[AJPT Publications Report](#)

[ASB Update](#)

[GAO Update](#)

[PCAOB Standards Update](#)

[Update on the IAASB's Activities 2008](#)

[Have you Seen...?](#)

[Have You Seen... These Instructional Resources?](#)

Calls and Announcements

[Thirty Three Years of Audit Research](#)

[Call for Submissions Auditing Section Conference](#)

[Call for Nominations - Auditing Section Awards](#)

[Accounting Education: an international journal Call for Papers](#)

Fall 2008 officer elections. Steve Glover (BYU) was elected to serve as Vice President-Academic, and Chris Hogan (Michigan State University) was elected to serve as Treasurer. Chris and Steve will assume their offices at our Auditing Section Luncheon in New York in August 2009. Congratulations to these new officers! We look forward to working with them on the Executive Committee.

Future Elections

During the Annual Business Meeting, the Executive Committee and attending Section members had a discussion regarding whether the Auditing Section should continue to have contested elections. Many of the AAA Sections do not hold contested elections, but rather have elected nominating committees present a slate of officers to the membership. Before the Auditing Section could move to non-contested elections, there would need to be a change in the Section's by-laws. The Executive Committee will be drafting a change to the Section by-laws to allow for noncontested elections. The proposed change will have a number of features including: (1) the election of a nominating committee by the Section members, and (2) the provision for there to be a contested election, which includes a mechanism for allowing Section members to have their names placed on the ballot, thereby requiring a contested election. This proposed change to the by-laws will be put out to the membership for a vote in Spring 2009. If you have any questions about this potential by-laws change, please feel free to contact me. The Executive Committee wants to allow the Section's members a formal voice on this issue, as it is an issue that has been raised by many Section members who question the benefit of continuing to have contested elections.

2009 Annual Meeting

Planning for the Auditing Section activities at the 2009 AAA Annual Meeting has begun. This year's meeting will be held in New York City, August 1-5, 2009. Tim Louwers, with the assistance of Kenny Reynolds, is serving as 2009 Annual Meeting Coordinator. They are in the process of coordinating the reviews of the submitted manuscripts and panel proposals. They will need to identify discussants for all of these papers as well as moderators for the concurrent sessions. We encourage you to volunteer at the following website: http://aaahq.org/AM2009/sub_volunteer.cfm.

As you register for the AAA Annual Meeting be sure to register for the Auditing Section's luncheon on Monday. This year, Donald Nicolaisen, Former Chief Accountant of the SEC and Co-Chair of the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession, will be the featured speaker. Don has some great insights to share with us regarding the state of the auditing profession and how we might want to consider that in our teaching and research. You will not want to miss it! The Executive Committee has agreed to cap the cost of the Auditing Section luncheon at \$50, which is greatly reduced from the amount being charged by the hotel. To allow Section members to attend this luncheon at a more reasonable cost, the Executive Committee has agreed to a one-time subsidy to offset the high costs associated with holding the meeting in NYC. Please plan to join us at the Auditing Section luncheon.

AAA Commons

Julia Higgs has agreed to serve as the Auditing Section's AAA Commons Editor. Julia will be working with the Executive Committee and Section members to help ensure that the Section uses this new technology in a way that is most beneficial to our members. Thank

[Australian Accounting Review Call for Papers](#)

[Call for Committee Volunteers](#)

[AICPA Call for Volunteers](#)

[Auditor's Report Archive](#)

[Auditing Home Page](#)

Summer 2009 Issue Deadline

The deadline for material to be included in the Summer 2009 issue of *The Auditor's Report* is April 30, 2009. The preferred format is a Word file attached to an e-mail message. We are also 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 April 30, 2009, to ensure timely publication of the issue:

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

you Julia for agreeing to take on this very important service role. Click here to sign onto the Commons: <https://commons.aaahq.org/signin>.

CIIA

Dana Hermanson will be stepping down as co-editor of *CIIA* effective March 2009 so that he can assume the co-editor role at *Accounting Horizons*. Thank you Dana for all of your work in getting this new journal off the ground. The articles that have appeared in the first few volumes have highlighted very important topics and are very useful for research and classroom activities.

The Auditing Section is very fortunate that Rich Houston has agreed to become the next co-editor of *CIIA*. Rich has already started preparing for this role and will work with Scott Showalter, who has agreed to continue as co-editor of *CIIA*.

Thank You to The KPMG Foundation

In closing, I would like to reiterate my thanks to The KPMG Foundation. The Auditing Section is able to accomplish so much because of The KPMG Foundation's generous, unwavering, and substantial support. This support includes sponsoring two of our marquee events: our Midyear Conference and our Doctoral Consortium. ***Thank you KPMG Foundation! The Auditing Section truly appreciates your support!***

[edu](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Views from the Profession*

By **Walt Conn, Global Head of Audit Methodology and Implementation, KPMG LLP**

In this column presenting a view from the auditing profession, I would like to highlight some of the reasons that, even in these difficult economic times, this is such a great time to enter the auditing profession. Some of the reasons are undoubtedly obvious and widely discussed. Others may not be. We live in an exciting time that puts extreme value and importance on auditors, auditing faculty, and college students preparing to, or considering entering the auditing profession. I encourage you in academia to ensure that your students are aware of, and excited about, the opportunities for them in the auditing profession.

The past decade arguably has been a time of unprecedented change in the auditing profession, in part due to ever-increasing complexity of transactions and of accounting standards, globalization, and of course, some large-scale frauds resulting in changes in the regulatory environment in which auditors practice. The period of change has been both challenging and exciting. The nature of transactions and the profession's challenges have changed with business cycles, but accounting and audit skills remain core and consistently critical to success (from the go-go IPO years of the 90s, to the private equity and M&A trends this decade, to the restructuring needs in the current environment; to the growth in public-private partnerships we expect to see in the coming years of infrastructure spending and government stimulus).

A few words about several specific drivers of opportunity:

International Financial Reporting Standards (IFRS) and Convergence of Accounting Standards

– As readers of this column surely know, in late 2008, the SEC proposed a “roadmap” for potentially phasing in mandatory IFRS filings by U.S. public companies beginning for years ending on or after December 15, 2014. The roadmap is conditional on progress towards “milestones” that would demonstrate improvements in both the infrastructure of international standard setting and international standards, and the preparation of the U.S. financial-reporting community to function in an IFRS environment. Some U.S. public companies that operate within an “IFRS industry” would be permitted to begin using IFRS as soon as this year, 2009, if the proposal is adopted unchanged. While these elements of the roadmap represent *proposals*, there is a prevalent view that IFRS is coming to the U.S.—in fact, private companies are already permitted to use IFRS. And of course, how, when, and where IFRS should fit in an academic curriculum is a common conversation with and within academia. For the moment, accounting firms prepare and deliver much of the training on IFRS, and on-the-job training will always be an important aspect of the growth of IFRS in the U.S. Even to the extent that some companies, for example, most U.S. private companies, are not directly impacted in the short-term by the expanding use of IFRS, I believe they ultimately will be. In the meantime, they undoubtedly will be impacted by the FASB's and International Accounting Standards Board's commitment to converge accounting standards over time. We should also keep

in mind that the conversion to IFRS goes beyond new accounting. The impact will extend into business decisions such as mergers and acquisitions, tax strategies, and supply chain policies. Adjustments will impact software applications, management systems, and processes. Auditors will have an ideal opportunity during conversions to clearly see just how important accounting standards are to managing a business. There has perhaps never been an opportunity to this extent for entry-level auditors and experienced managers and partners to be on equal footing as all of us learn IFRS together.

Convergence of auditing standards – Many audit professionals will consider reference to convergence of auditing standards to be premature. There are three sets of auditing standards that have significant influence on audit practice in the United States – those of the Public Company Accounting Oversight Board (PCAOB), the Auditing Standards Board (ASB), and the International Auditing and Assurance Standards Board (IAASB). The PCAOB's standards are used for audits of public companies, the ASB's are used for audits of private and not-for-profit entities, and the IAASB's serve as the base for several large firms' global audit methodologies. All of these standards are in a state of significant change. The IAASB recently completed a rewrite of its auditing standards (which will become effective in 2010), and the ASB is in the process of such a rewrite. The ASB's rewrite includes an effort to converge with the IAASB's auditing standards wherever possible. The PCAOB follows the activities of the IAASB and ASB, and though it has not initiated an effort to converge, it recently published a comparison of its proposed risk assessment standards with the corresponding standards of the IAASB. One PCAOB board member recently expressed a view that the Board should work with other auditing standards setters with a goal of establishing a roadmap to eliminate unneeded differences among the three sets of standards. Whether the world will see more convergence or divergence in auditing standards remains an open question; however, either direction will bring change, which will create opportunities for motivated auditors to learn the differences and similarities, and create opportunities to re-think audit methodologies.

Growing importance of fair value – One can rarely look at a newspaper or a business periodical without seeing an article that addresses some aspect of fair value accounting. While there are differing views on a number of aspects of fair value in financial reporting, most would agree that fair value measurements and disclosures have become, and will continue to be, increasingly important components of financial statements. Today, many auditors rely heavily on fair value specialists to assist in auditing fair value assertions. While that approach will certainly continue for valuations of businesses and exotic financial instruments, it likely is not a sustainable model for all fair value assertions, nor is that approach likely to result in the best audit quality. Rather, auditors need to become better educated in finance theory and valuation concepts in order to test valuations of non-exotic instruments (for example, a simple interest rate swap) and in order to have meaningful dialogue with valuation specialists for the more complex areas. Auditors with superior knowledge in finance theory and valuation are in high demand, and I believe that demand will accelerate rapidly, creating abundant opportunities for auditors with finance and valuation skill sets.

Economic environment – Auditing firms are not immune from the current economic downturn. The struggles of an economy as severe as ours clearly impacts the revenue of audit firms. We are seeing more companies, both public and private, filing bankruptcy, more liquidating, and some being acquired virtually overnight in government-assisted takeovers. In addition, there is a dearth of initial public offerings, other types of offerings of securities, and merger and transaction work, all of which traditionally have generated significant opportunities for auditors.

However, I am optimistic that the economic environment will generate new opportunities for auditors. For example, a second wave of the federal economic stimulus program is expected in early 2009, which is likely to create various opportunities for auditors, such as compliance attestation services for recipients of government funds, and assurance services for state and local governments expected to administer the stimulus package. In addition, some believe that there will be an increase in forensic auditing engagements in the current environment, either in support of internal, regulatory, or criminal investigations or as part of a post-mortem review of business failures. While the current economic environment is discouraging in many respects, auditors should be optimistic about new opportunities ahead. The stimulus package should position the economy for increased activities in the coming quarters and years.

Space does not permit me to speak to other opportunities ahead for auditors, but growth of assurance services related to sustainability reporting, XBRL, broader application of technology in the way auditors do their work, and other related regulatory changes as a result of the financial crisis are a few that I believe will have a meaningful impact on the profession in the years ahead. The combination of these global, regulatory and business factors, coupled with the new skill sets needed and potential service opportunities, make this an exciting and opportune time to enter the auditing profession.

****This column represents the views of the author only, and does not necessarily represent the views or professional advice of KPMG LLP.***

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Committee Spotlight

By Audrey Gramling

The Auditing Section of the AAA is successful because of the many members who agree to serve on one or more of the Section's committees. This column profiles the activities of one of the Section's committees. In this issue of *The Auditor's Report*, the Communications Committee is profiled.

The Charge of the Committee includes the following:

1. Responsible for maintenance of the Auditing Section's web-site.
2. Responsible for oversight of the electronic dissemination of the Auditing Section's newsletter.
3. Assess the cost and feasibility of electronic dissemination of the Auditing Section's journal and other reports, studies, and administrative communications.
4. Interact/liaison with the appropriate representatives of the American Accounting Association on issues related to association-wide use of electronic forms of communication.
5. Work with the Education Committee to monitor the development and use of distance learning models and report emerging trends to the members of the Auditing Section.
6. Foster innovations in the use of electronic forms of communication that will enhance the Auditing Section's ability to achieve its strategic objectives.
7. Communicate the progress and results of Committee activities to Auditing Section members in appropriate ways, including but not limited to the presentation of a brief report at the Section's annual business meeting.

The 2008-2009 Committee Members include:

Duane Brandon, Auburn University (Editor, *The Auditor's Report*, 2008-09)

Scott Bronson, Michigan State University

Glen Gray, California State University, Northridge (Webmaster Emeritus)

Julia Higgs, Florida Atlantic University (Section Photographer and AAACommons Editor for the Auditing Section)

Jennifer Mueller, Auburn University (Chair)

Kurt Pany, Arizona State University

Targeted Activities of the Committee

One of the primary goals of the Committee is make sure that the research of our Section members is widely disseminated to the practice community. To accomplish that goal, during Fall 2008 the Committee focused on:

1. Updating the list of complimentary recipients of AJPT. Each issue of AJPT is provided complimentary to many practicing auditors, regulators, politicians, and business press personnel. If you are aware of anyone that you think might benefit from a complimentary subscription to AJPT, please contact Jennifer Mueller (jmueller@auburn.edu).

2. Researching possibilities for promoting and improving the visibility of auditing research in the business and popular presses. In addition to providing our Section journal to many of our stakeholders, the Committee is exploring the possibility of utilizing a PR firm to help get our academic research into the business and popular press. The Committee's goal in promoting the research is to have a practical impact in society and business and to also raise the visibility of the AAA Auditing Section as an organization.

[Back to Contents Page](#)



Volume 32, No 2
Winter 2009

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Summary of 2009 Auditing Midyear Conference

St. Petersburg, Florida

By Brian Ballou (Miami University) and
Chris Hogan (Michigan State University)

The 2009 Auditing Midyear Conference was held in St. Petersburg, Florida, January 15-17, 2009, at the Bayfront Hilton Hotel. The meeting was preceded by the 10th annual Auditing Section Doctoral Consortium and the Audit Education Workshop.

The meeting included two plenary sessions on Friday. The morning's plenary speech by Charles Holm, Chief Accountant of The Federal Reserve Board, Division of Banking Supervision and Regulation in Washington D.C. provided a summary of current banking supervision and regulation processes and a discussion of the credit crisis in the U.S. He discussed several potential developments in banking and bank regulation as a result of U.S. government actions and international initiatives such as the Financial Stability Forum and Basel II. Friday afternoon's plenary session by Oliver Halle, Diann Cattani and Josh Kenyon titled "Taking the Harder Right" (see their website at www.CorporateScaredStraight.com) provided an insider's view of fraud and it's devastating effects. As Oliver says about Diann and Josh in his book, "they opened their hearts and bared their souls in sharing the experiences that devastated their lives...in the hope that others will learn from them."



From left: Brian Ballou (Conference Co-organizer) and Charles Holm (Plenary Speaker, Chief Accountant of The Federal Reserve Board, Division of Banking Supervision and Regulation).

The meeting also included four outstanding panel sessions. The Education Committee sponsored a session on “International Standards on Auditing: Preparing the Future Members of the Profession” with participants from academics, practice and the PCAOB. The Auditing Standards Committee sponsored a panel titled “International Convergence and Clarity Research Opportunities” with members of the IAASB, the PCAOB, practice and academia represented on the panel. Cynthia Fornelli from the Center for Audit Quality moderated a panel with prominent partners from Big 4 audit firms on the role of the Center for Audit Quality, audit issues related to fair value accounting and the current market crisis, potential regulatory responses from the credit crisis and Madoff fraud, and implications for the profession from a movement to accounting and auditing convergence. The Research Committee coordinated a panel on “Current Research Opportunities in Auditing” with panel participants discussing research opportunities related to COSO Monitoring Guidance and ERM, judgment and decision-making, fair value auditing, and fraudulent financial reporting. All four panels were well attended and generated extensive discussion of current issues in the profession and academe.

Forty-eight papers were presented in the concurrent sessions, including three teaching cases. Another 32 papers were presented at the Research Roundtable session on Saturday morning. Total meeting attendance was 306. The Doctoral Consortium had 51 students participating, and the Audit Education Workshop had 75 participants.

The conference program and copies of many of the papers featured at the meeting are still available at: http://aaahq.org/meetings/2009AUD_program.htm.

We are very grateful to the many people who helped make this conference successful. First, we thank the KPMG Foundation and Bernie Milano for their faithful sponsorship and support of the conference. Second, we thank Auditing Section President Audrey Gramling, the 2009 Program Committee Vice Chairs Jennifer Joe and Susan Shu, and the Doctoral Consortium Chair, Mark Zimbelman. Third, we thank our friends at the AAA, including Kathy Casper, Debbie Gardner, Sonja Langley, Arlene Oliver, Dee Strahan, and Peggy Turczyn. Finally, we thank all of the authors, reviewers, discussants, moderators, and panelists who helped make the program possible.



From left, Chris Hogan (Conference Co-organizer) presents the award for best paper by a Ph.D student to Jaime Schmidt.

[Back to Contents Page](#)



Volume 32, No 2
Winter 2009

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Auditing Section Doctoral Consortium

St. Petersburg, Florida
January 15, 2009



2009 Doctoral Consortium Participants

Over fifty Ph.D. students from programs around the globe participated in an excellent Auditing Doctoral Consortium that was held on Thursday, January 15, 2009. Mark Zimelman served as the program coordinator for the 10th Annual Auditing Doctoral Consortium. He was assisted by Brian Mayhew from the University of Wisconsin who will coordinate the 2010 Consortium. They assembled an impressive line-up of auditing faculty for this all-day event including Joe Carcello, Bryan Church, Steve Glover, Vicky Hoffman, Chris Hogan, Karla Johnstone, Doug Prawitt, Larry Rittenberg, Hun-Tong Tan, Ken Trotman and Jeff Wilks.

One purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas and thoughts from leading researchers in auditing. In addition, the Consortium provides opportunities for networking with other Ph.D. students interested in auditing, established auditing researchers, and journal editors. Students' enthusiastic comments about the

program indicate that the program clearly accomplished these goals. We are grateful for the generous support from the KPMG Foundation, which supports the Consortium.

[Back to Contents Page](#)



Volume 32, No 2
Winter 2009

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

2009 Distinguished Service in Auditing Award - Gary Holstrum

Presented by Shaun Budnik



Gary Holstrum (right) receives the 2009 Distinguished Service Award, presented by Shaun Budnik (left).

Gary Holstrum, who currently serves as consultant to the Office of the Chief Auditor of the Public Company Accounting Oversight Board (PCAOB), recently received the 2009 Distinguished Service in Auditing Award. This award recognizes individuals who have made significant contributions to the profession, the Auditing Section, and scholarship.

The 2009 selection committee members were Andy Bailey, Steve Glover, Bill Kinney, Bill Messier, Dan Simunic, Bill Felix, Trevor Stewart, and Shaun Budnik.

Holstrum was recognized for his distinguished service to the profession and the Auditing Section. Examples of his service

to the profession are numerous. A few prominent examples include:

- His service on the Auditing Standards Board of the AICPA for 4 annual terms.
- His time as the United States representative to the International Accounting Education Standards Board (IAESB).
- In addition to serving on numerous committees of the Auditing Section, Holstrum was president of the Section. After his term, he continued to serve the American Accounting Association and the Auditing Section on a number of committee and task force assignments.
- Holstrum's most significant contribution to the profession has been his work with the PCAOB, where he helped solidify a strong relationship between the Auditing Section and the PCAOB. His work will benefit the Auditing Section and the PCAOB for years to come.

Holstrum was also a Deloitte partner. During his tenure with Deloitte, he developed and communicated Deloitte's auditing policies and techniques, and served as an audit partner on engagements for several large, multinational and medium-sized clients.

He has been a professor of Accountancy at the University of South Florida in Tampa and the University of Southern California. He has also taught at a number of other universities in the U.S. as well as outside of the U.S.

Holstrum is a Certified Public Accountant. He received a Bachelor's degree in History and a PhD in Accounting from the University of Iowa.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

2009 Outstanding Educator Award

Presented by Mark Peecher

The Outstanding Educator Award is given to recognize “exemplary contributions in research or teaching over a sustained period of time (10 to 15 years), as evidenced by publications, educational innovations, guidance to graduate and undergraduate students, or excellence in teaching.” As in prior years, the set of nominees was outstanding, forcing a very tough decision by the selection committee. Accordingly, I want to thank the other committee members Rich Houston, Mike Gibbins, Kathryn Kadous, and Susan Scholz for their work in making the difficult selection.

The selection committee concluded that there should be two recipients of the 2009 Outstanding Educator Award. These two eminent audit educators are **Stanley F. Biggs** and **William F. Messier, Jr.**

Stanley F. Biggs is the KPMG Professor of Accounting and Board of Trustees Distinguished Professor of Accounting at the University of Connecticut. After receiving his Ph.D. from the University of Minnesota in 1978, Professor Biggs began his academic career at the University of Wisconsin-Madison. In 1984, he moved to the University of Connecticut and, other than several visiting appointments at institutions such as University of New South Wales and the Norwegian School of Management, has been there ever since.



From left: Stanley Biggs (left) and Mark Peecher (right).

William F. Messier is the Kenneth and Tracy Knauss Endowed Professor of Accounting at the University of Nevada, Las Vegas and PricewaterhouseCoopers Professor II at the Norwegian School of Economics and Business Administration. He received his doctorate from Indiana University in 1979 and began as an assistant professor at the University of Florida. Before moving to UNLV, Professor Messier was a faculty member at Georgia State University and has held prestigious a visiting appointment at SDA Bocconi (Italy).



Bill Messier (left) and Mark Peecher (right).

Professor Biggs and Professor Messier have published numerous influential monographs and/or articles, delivered many significant presentations, and have supervised and mentored rookie audit scholars who themselves have authored award-winning dissertations and have had very successful careers of their own. Each of these esteemed audit educators clearly met the criteria for the Outstanding Educator Award, and it was a pleasure having the opportunity to present it to them.



Bill Messier (left) and Stanley Biggs (right) receive the Outstanding Educator Award from Mark Peecher (center).

[Back to Contents Page](#)



Volume 32, No 2
Winter 2009

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

2009 Notable Contributions to the Auditing Literature Award

Presented by Arnie Wright

The Auditing Section's [Notable Contributions to the Auditing Literature](#) Award recognizes a published work of exceptional merit that has made, or has the potential to make, a direct contribution to auditing or assurance research, education, and practice.

The Notable Contribution to the Auditing Literature Award Committee this year included Mike Bamber, University of Georgia, Ella Mae Matsumura, University of Wisconsin-Madison, Jay Rich, Illinois State University, and myself as chair. I want to acknowledge and thank the committee for its efforts in the difficult decision of considering the 18 nominations received for the award this year.

And the winner is....

Mike Gibbins, Steve Salterio & Alan Webb. Evidence about Auditor-Client Management Negotiation Concerning Client's Financial Reporting. *Journal of Accounting Research*. 2001.

This is a pioneering work in the audit-client negotiations area. It is the first to provide a model of the negotiation process in the rich audit environment where many contextual and institutional factors are prominent. The work is innovative, widely cited, and has stimulated a major stream of research that uses the model as a basis. Finally, the negotiations area is one of significant importance to the auditing profession.



Steve Salterio (left), Alan Webb (right), and Mike Gibbins (not pictured) receive the Notable Contribution to the Auditing Literature Award from Arnie Wright (center).

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

2009 Auditing Section Outstanding Dissertation Award

Presented by Roger Simnett

Jonathon Stanley, currently of Clemson University, who completed his Ph.D. at The University of Alabama, received the 2009 Auditing Section Outstanding Dissertation Award for his dissertation entitled, "An Examination of Unexpected Audit Fees as an Indicator of Distressed Clients' Business Risk." The award was for the first time accompanied by a cash prize of \$2,500. Todd DeZoort of The University of Alabama was also recognized for his service as Jonathon's dissertation chair.

Tina Carpenter (The University of Georgia), Mark DeFond (University of Southern California), Roger Simnett (University of New South Wales), Greg Trompeter (Boston College/University of Central Florida), and Jeff Wilks (Brigham Young University) served on the selection committee for this award.



Jonathan Stanley (right) and his dissertation chair, Todd DeZoort (left), receive the Outstanding Dissertation Award from Roger Simnett (center).

[Back to Contents Page](#)

**2009 Mid-Year Business Meeting
American Accounting Association - Auditing Section
Statement of Cash Receipts, Disbursements, and Cash Balance for Years Ended
August 31, 2008 and 2007 (Note 1)**

	Year ended August 31		
	2008	2007	% Chg
Receipts			
Membership Dues (Note 2)	\$51,456.00	\$36,980.00	39.1%
Journal Subscriptions	\$49,988.57	\$49,777.20	0.4%
Publications Sales/Royalties	\$2,181.42	\$7,122.10	-69.4%
Journal Submission Fees (Note 3)	\$8,400.00	\$7,625.00	10.2%
Reimbursements/Contributions (Note 4)	\$26,000.00	\$26,800.00	-3.0%
Annual Meeting Luncheon Fees	\$8,280.00	\$9,630.00	-14.0%
Mid-Year Meeting Registration	\$35,945.00	\$38,520.00	-6.7%
Interest Income (Note 5)	\$5,858.57	\$11,139.26	-47.4%
Total Receipts	\$188,109.56	\$187,593.56	
Disbursements			
AJPT Printing (Note 6)	\$16,591.32	\$13,125.65	26.4%
AJPT Distribution (Note 6)	\$7,789.08	\$5,158.50	51.0%
AJPT Discretionary	\$10,089.80	\$8,853.96	14.0%
AJPT Editorial Support	\$12,176.81	\$9,982.03	22.0%
AJPT AAA Editorial Support (Note 6)	\$15,503.00	\$10,387.00	49.3%
AJPT Postage and Other	\$711.44	\$207.09	243.5%
CIIA Expenses	\$10,816.00	\$0.00	-
Section Newsletter	\$2,105.00	\$4,196.26	-49.8%
Mid-Year Meeting	\$79,355.73	\$75,634.68	4.9%
Annual Meeting Luncheon	\$7,794.19	\$8,887.77	-12.3%
Awards & Student Memberships (Note 7)	\$6,719.10	\$1,532.90	338.3%
Committee Expenses	\$2,085.54	\$2,665.23	-21.8%
Postage and Miscellaneous	\$3,798.74	\$2,977.02	27.6%
Total Disbursements	\$175,535.75	\$143,608.09	
Cash Increase (Decrease)	\$12,573.81	\$43,985.47	
Beginning Cash Balance	\$279,551.01	\$235,565.54	
Ending Cash Balance	\$292,124.82	\$279,551.01	4.5%

Notes:

1. The Statement of Cash Receipts, Disbursements, and Cash Balance is compiled from the monthly financial reports received from the American Accounting Association national office in Sarasota, FL.
2. As of August 31, 2008 (2007), there were 1,362 (1,304) full members and 219 (194) associate members. Of these, 1,226 (1,122) reside in the United States and 355 (376) reside outside the United States.
3. 2008 submission fees include CIIA Journal Submission Fees of \$300.
4. Contributions from KPMG cover costs related to the 2008 and 2007 Mid-year Meeting (\$15,000 each year) and the associated Doctoral Consortium (\$11,000 each year).
5. Interest Income is Section's allocation of deposit interest received from AAA headquarters.
6. AJPT contained approximately 390 (252) pages in fiscal 2008 (2007).
7. The 2008 total is composed of \$3,053.10 for Audit Section Awards and the 119 complimentary AAA/Audit Section Memberships provided to students totaling \$3,666.00.

AUDITING: A JOURNAL OF PRACTICE & THEORY

I took over as Editor from Dan Simunic on June 30, 2008 (new papers from June 1). Dan has continued to look after the papers that he was involved in. All previous Associate Editors have agreed to continue with the outstanding manuscripts under their control. Thus, no author should be disadvantaged by the change in editorship.

As previously announced, Associate Editors are: Michael Bamber, Jean Bedard, Chris Hogan, Robert Knechel, and Clive Lennox

A copy of the Publication Report for the year ended December 31, 2008 is provided below. The number of submissions is consistent with 2007. In 2007 there was the joint AJPT/JCAE Symposium in Hong Kong which resulted in 25 submissions to AJPT.

AUDITING: A JOURNAL OF PRACTICE & THEORY				
Editor's Report				
Dan A. Simunic, Editor (1/1/08 – 6/30/08)				
Ken Trotman, Editor (7/1/08 – 12/31/08)				
December 31, 2008				
Processing Activity	1/1/08 – 12/31/08	1/1/07 – 12/31/07	1/1/06 – 12/31/06	
Submissions:				
New	75	108	72	
Revisions	68	42	54	
Total	143	150	126	
Manuscripts in Inventory at 12/31/08 by Revision Stage				
Accepted	15			
Conditional Acceptance	8			
Round 1*	64*			
Round 2	18			
Round 3	3			
Total	108			
* with reviewers in R1 or authors have not yet sent back rewrite				
Manuscript Results				
Total New Submissions	2008		2007*	
Accepted	75	108		
In-Process	1	1%	11	10%
Rejected	43	58%	34	32%
Total	31	41%	63	58%
* includes 25 submissions to AJPT/JCAE Symposium in Hong Kong				

Ken Trotman
Editor



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Auditing Standards Board Update as of January 30, 2009

Mark H. Taylor – Creighton University
Member of the AICPA Auditing Standards Board

This is my first update as a member of the Auditing Standards Board (ASB). As I embarked on my term in December 2008, I became curious about academics' service on the Board. I acquired an ASB history maintained by the AICPA; it indicates that the following academics have served on the ASB since its inception: Doug Prawitt (2006-2008), Bill Messier (2003-2005), Ray Whittington (1999-2002), Kurt Pany (1995-1998), Al Arens (1992-1994), Gary Holstrum (1989-1991), Jim Loebbecke (1985-1987), Bill Kinney (1982-1984), Philip Fess (1981), Bedford Norton (1979-1980), and John Willingham (1977-1978). I am honored to follow in the footsteps of these dedicated academics and to work with my colleagues from practice who are currently serving on the ASB.

My appointment was effective December 1, 2008. The ASB met for a day and half meeting December 10-11 in Washington DC; we also met for a 3.5 day meeting in San Antonio, TX immediately preceding the Midyear Auditing Section Meeting in Tampa, FL. Having attended those two meetings, I reiterate Doug's sentiments; I am very impressed by the commitment, integrity, and dedication to the public trust of my colleagues on the Board.

As will be clear from this update, the ASB has an exceptionally ambitious agenda. One of the more significant items in terms of the breadth of its effect on ASB standards is the Clarity Project. Regarding the Clarity Project, I encourage Section members to visit a new link on the AICPA Audit and Attest Standards homepage that contains a wealth of information about the project. To access that page, [CLICK HERE.](#)

and click on the blue rectangle labeled "ASB Clarity Project and Convergence with International Auditing Standards." That link contains:

- Final clarified Statements on Auditing Standards (SAS) issued to date,
- An information sheet, "Clarity and Convergence," briefly explaining the Clarity Project,
- Exposure drafts issued to date, and related supplementary material,
- A description of the soon-to-be-released clarified risk assessment standards,
- A paper, "International Convergence Plan," describing the ASB's process for converging its standards with those of the International Auditing and Assurance Standards Board (IAASB), and
- A December 2007 discussion paper entitled "Improving the Clarity of ASB Standards," requesting feedback from readers on the Clarity Project.

The ASB currently has, and will continue to have, a significant number of proposed pronouncements in the comment period. I urge Section members to participate in the standard setting process by studying important proposed pronouncements and

providing comments either to the ASB or by contacting a member of the Auditing Section Auditing Standards Committee. Incidentally, I was pleased to hear that the ASB had received a comment letter addressing one of the proposed standards from a professor and his auditing students. No doubt this exercise was an excellent learning experience for the students and the contents of that letter were considered along with the other letters received. I encourage Section members to consider coordinating the preparation of such a letter as an audit class project.

As to the overall ASB, I encourage members to [CLICK HERE](#) for an ASB member overview; several new members joined the ASB in December to replace others whose terms had concluded.

The ASB performs its work through task forces composed of members of the ASB and others with technical expertise in the subject matter of the projects. Each task force includes an AICPA staff liaison as well. The work product of these task forces is periodically presented at the ASB meetings, which are open to the public. In this ASB update, to provide a broad overview of the extensive ASB activities, I provide a list and summary of the numerous ASB task forces and their objectives. By the sheer volume of task forces (27 in all!), Section members will see that the ASB's agenda clearly is ambitious, as noted above. In alphabetical order, the ASB's task forces and the status of their work are as follows:

1. Analytical Procedures Task Force. This task force is revising AU Section 329, *Analytical Procedures* to converge with International Standard on Auditing (ISA) 520 (Redrafted), *Analytical Procedures*, which was finalized in September 2008. The task force expects to present a draft of the proposed Statement on Auditing Standards (SAS) at the June 2009 ASB meeting.

2. Auditing Accounting Estimates Task Force. This task force is combining (1) AU Section 342, *Auditing Accounting Estimates*, and (2) AU Section 328, *Auditing Fair Value Measurements and Disclosures*, and converging the combined standard with ISA 540 (Revised and Redrafted), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, issued by the IAASB in February 2008. The task force discussed its draft during the January 2009 ASB meeting and is expected to return with a revised draft at the April meeting.

3. Auditing Related Party Transactions Task Force. This task force is converging AU Section 334, *Related Parties* with ISA 550 (Revised and Redrafted), *Related Parties*. The task force is scheduled to present a draft of a proposed SAS at the July 2009 ASB meeting.

4. Audit Issues Task Force. This task force (1) oversees the ASB's planning process, (2) evaluates emerging technical issues and determines their appropriate disposition, including referral to an ASB task force to develop guidance, (3) addresses emerging audit and attestation practice issues, (4) provides advice on ASB task force objectives and membership, (5) monitors task force progress, and (6) assists the ASB Chair and the staff in carrying out their objectives.

5. Auditors' Reports–700 Task Force. This task force is developing the following three proposed SASs to replace AU Section 508, *Reports on Audited Financial Statements*:

- A SAS that combines the substance of ISA 700, *Forming an Opinion and Reporting on Financial Statements*, and ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*.
- A SAS that converges with ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*.
- A SAS that converges with ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

The first two will be further discussed at the April 2009 ASB meeting and the third will be discussed at the June 2009 ASB meeting.

6. Auditor's Reports– 800 Task Force. This task force is developing two proposed SASs to converge relevant aspects of AU Section 623, *Special Reports*, with

- ISA 800 (Revised & Redrafted), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and
- ISA 805 (Revised and Redrafted), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

The IAASB issued ISA 800 and ISA 805 in September 2008. In January 2009, the ASB reviewed and discussed the proposed SAS that converges AU Section 623 with ISA 800. The ASB will probably discuss this via conference call before the April meeting to vote it to exposure.

7. Auditor's Report Research Task Force. This task force, which I will Chair going forward, is charged with identifying research topics and individuals to perform research related to the auditor's report and how the auditor's report might be improved. The ASB approved the funding of four projects in the first phase, which involves identifying common misconceptions users have regarding an unqualified auditor's report. A second phase of the research will explore ways in which the auditor's report might be revised to address user misconceptions. The first phase of the research is expected to be completed in the first half of 2009.

8. Clarity Task Force. This task force has developed an exposure draft, issued in September 2008, which contains the following two components that Doug mentioned in the Fall update:

- *Proposed Preface to Codification of Statements on Auditing Standards*, Principles Governing an Audit Conducted in Accordance with Generally Accepted Auditing Standards. This component proposes replacing AU Section 150, *Generally Accepted Auditing Standards*, with governing principles. The principles will preface the AU sections, be supported by objectives and requirements of the individual SASs, and categorized as responsibilities, performance, and reporting principles.
- *Proposed Statement on Auditing Standards*, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards. The proposed SAS will supersede (1) AU Sections 110, "Responsibilities and Functions of the Independent Auditor," 210, "Training and Proficiency of the Independent Auditor," 220, "Independence," and 230, "Due Professional Care in the Performance of Work," of SAS No. 1, *Codification of Auditing Standards and Procedures* (2) SAS No. 95, *Generally Accepted Auditing Standards*, and (3) SAS No. 102, *Defining Professional Responsibilities in Statements on Auditing Standards*. It will converge these AU sections and standards with ISA 200 (Revised and Redrafted), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*. The comment period for the exposure draft ended on December 30, 2008.

9. Compliance Auditing Task Force. The ASB issued in December 2008 an exposure draft, *Compliance Audits*, that will supersede extant AU Section 801, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. The exposure draft responds to a recommendation in the June 2007 President's Council on Integrity and Efficiency "Report on National Single Audit Sampling Project," that the AICPA revise AU Section 801. The report contains the findings of a federal study of the quality of audits performed under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

10. Confirmations Task Force. This task force is converging AU Section 330, *The Confirmation Process* with ISA 505, *External Confirmations*. The ASB discussed a draft of the proposed SAS at its December 2008 meeting. The task force expects to present a revised draft and to ask the ASB to vote to issue the draft as an exposure draft at the April 2009

ASB meeting.

11. Financial Statements Prepared for Use Outside the U.S. Task Force. This task force is redrafting AU Section 534, *Financial Statements Prepared for Use in Other Countries*, in accordance with the clarity drafting conventions. Unlike most other auditing standards being converged to an existing ISA, AU Section 534 has no corresponding ISA. The proposed standard will address engagements in which the auditor is reporting on a U.S. entity's financial statements that have been prepared in conformity with the financial reporting framework adopted in another country for use outside the U. S. The task force is expected to discuss a revised draft at the April 2009 meetings.

12. Fraud Task Force. This task force is converging AU Section 316, *Consideration of Fraud in a Financial Statement Audit*, with ISA 240 (Redrafted), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. The ASB voted to ballot the proposed SAS for exposure at its December 2008 meeting.

13. Going Concern Task Force. This task force is revising AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, based on the IAASB's February 2007 exposure draft of ISA 570, *Going Concern*. The auditing guidance in ISA 570 is predicated on International Accounting Standard 1, *Presentation of Financial Statements*, which requires management to assess an entity's ability to continue as a going concern. Currently, a parallel accounting requirement does not exist in U.S. GAAP as the auditor is responsible for assessing whether an entity is a going concern. The task force is scheduled to present a revised draft, reflecting the FASB's going concern accounting standard, at the July 2009 ASB meeting.

14. Group Audits Task Force. This task force is charged with converging AU Section 543, *Part of the Audit Performed by Other Independent Auditors* with ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. The ASB concluded that the revised standard should continue to permit the auditor to make reference in the auditor's report to work performed by another auditor. The task force discussed its latest draft with the ASB at the January 2009 meeting and will return to the April meeting with revisions.

15. Initial Audit Engagements Task Force. This task force has developed a proposed SAS combining the guidance in ISA 510 (Redrafted), *Initial Audit Engagements—Opening Balances*, and relevant guidance from AU Section 315, *Communications Between Predecessor and Successor Auditors*. The ASB voted to ballot the proposed SAS for exposure at its December 2008 meeting.

16. Interim Reviews Task Force. At its December 2008 meeting, the ASB approved for final issuance the proposed SAS, *Interim Financial Information*, which amends AU Section 722 to accommodate reviews of nonissuer interim financial information. The proposed SAS indicates that if certain conditions are met, a review of nonissuer interim financial information should be performed in accordance with AU Section 722 rather than Statements on Standards for Accounting and Review Services (SSARSs). The proposed SAS also removes from AU Section 722 the guidance for reviews of issuer interim financial information as that guidance appropriately resides in the PCAOB standards.

17. Internal Audit Task Force. This task force is converging AU Section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* with ISA 610 (Redrafted), *Using the Work of Internal Auditors*, finalized in June 2008. The task force expects to present a proposed SAS at the July 2009 ASB meeting.

18. Internal Control Task Force. In October 2008 the ASB issued SSAE No. 15, *Reporting on an Entity's Internal Control Over Financial Reporting*, and SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*. SSAE No 15 is effective for integrated audits for periods ending on or after December 15, 2008 and supersedes AT Section 501, *Reporting on an Entity's Internal Control Over Financial Reporting*

(ICFR). It converges the standards practitioners use to report on a nonissuer's ICFR with PCAOB No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*, which is applicable to issuers. SAS No. 115 supersedes SAS No. 112 and bears the same title as SAS No. 112.

19. International Auditing Standards Task Force. The objective of this task force is to support the development of international auditing standards. Task force activities include, but are not limited to providing technical advice/support to the IAASB AICPA representative and technical advisors, commenting on IAASB exposure drafts, participating in and identifying U. S. volunteer participants for IAASB standard-setting projects, identifying opportunities for establishing joint standards with other standard setters, and identifying international issues that affect auditing and attestation standards and practices. The task force's next meeting is on March 4-5, 2009.

20. Laws and Regulations Task Force. At its October 2008 meeting, the ASB voted to ballot proposed SAS, *Consideration of Laws and Regulations in a Financial Statement Audit*, for issuance as an exposure draft. The proposed SAS will supersede AU Section 317, *Illegal Acts by Clients*, and is based on newly issued ISA 250 (Redrafted), *Consideration of Laws and Regulations in an Audit of Financial Statements*.

21. Management Representations Task Force. This task force is converging AU Section 333, *Management Representations*, with ISA 580 (Redrafted), *Written Representations*. The task force is also converging portions of AU Section 311, *Planning and Supervision*, with ISA 210, (Redrafted), *Agreeing the Terms of Audit Engagements*. The task force discussed a draft at the January 2009 meeting and it will likely be voted to exposure via conference call in March.

22. Quality Control Standards Task Force. This task force is converging AU Section 1, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards*, with ISA 220, *Quality Control for Audits of Historical Financial Information*. The task force also is redrafting Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control*, as part of the Clarity Project.

23. Required Supplementary Information/Other Supplementary Information Task Force. At its December 2008 meeting, the ASB voted to ballot to expose for public comment the following proposed SASs: (1) *Required Supplementary Information*; (2) *Other Information in Documents Containing Audited Financial Statements*; and (3) *Other Information in Relation to the Financial Statements as a Whole*. The proposed SASs will replace the guidance in AU Section 550, *Other Information in Documents Containing Audited Financial Statements*, AU Section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, and AU Section 558, *Required Supplementary Information*.

24. Risk Assessments Task Force. This task force is revising the risk assessment suite of standards in connection with the Clarity Project. The ASB voted to expose for comment at its December 2008 meeting the following proposed redrafted SASs, plus on additional related proposed SAS, all expected to be released by January 30, 2009 with comment period ending on April 30, 2009:

- Proposed SAS 106 (Redrafted), *Audit Evidence*,
- Proposed SAS 107 (Redrafted), *Materiality in Planning and Performing an Audit*,
- Proposed SAS 108 (Redrafted), *Planning an Audit*,
- Proposed SAS 109 (Redrafted), *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*,
- Proposed SAS 110 (Redrafted), *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*,



THE AUDITOR'S REPORT

Volume 32, No 2
Winter 2009

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Auditing Section Members Who Are Also AICPA Members

The Examination Division of the AICPA has two opportunities for Auditing Section members who are also AICPA members. The first is to assist in developing simulations that will be used on future CPA examinations. If you are interested or would like more information, please contact Joe Maslott at jmaslott@aicpa.org. The second is to volunteer to serve on the Auditing and Attestation Subcommittee. This subcommittee reviews all questions (multiple choice and simulations) appearing on Audit section the CPA examination. If you are interested or would like more information, please contact Adell Battle at abattle@aicpa.org.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

GAO Update

by Jeanette Franzel and Maxine Hattery**

GAO Adds Three Issues, Drops One, on 2009 "High-Risk" List

GAO's update of its list of federal programs, policies, and operations that are at "high risk" for waste, fraud, abuse, and mismanagement or are in need of broad-based transformation was released in January. Acting Comptroller General Gene L. Dodaro announced the addition of three new areas to the list: regulatory system governing U.S. financial institutions and markets, the Food and Drug Administration's (FDA) oversight of medical products, and the Environmental Protection Agency's (EPA) assessment and control of toxic chemicals.

"The three areas added to this year's High-Risk List are all vital to the public's well being," Dodaro said in announcing the new release at a bipartisan briefing on Capitol Hill with leaders of the Senate Homeland Security and Governmental Affairs Committee and the House Oversight and Government Reform Committee. At the same time, Dodaro said, enough progress had been made to remove one item from the list: the Federal Aviation Administration's air traffic control modernization.

The list is updated every 2 years and released at the start of each new Congress to help in setting oversight agendas. There are now 30 programs and operations on the High-Risk List. There were 14 areas on the list when the program was started in 1990. Since then, there have been 37 additions, 19 removals (eight of which were among the original 14), and 2 areas that were consolidated.

The Department of Defense continues to dominate the High-Risk List. "The military's lack of progress is of growing concern to GAO," Dodaro said. "DOD owns eight areas on the High-Risk List outright, and it shares government-wide responsibility for an additional seven areas."

Of the three additions, the financial regulatory system is no surprise. GAO confirms that the financial crisis has revealed major weaknesses in the system, which failed to keep pace with such market trends as the emergence of large, interconnected financial conglomerates, and the development of new, complex investment products.

Regarding the second addition to the High-Risk List, GAO states that the FDA needs to improve the data it uses to manage the foreign drug inspection program, do more inspections of foreign drug manufacturing, more systemically review advertising and promotional claims, and ensure that drug sponsors accurately report clinical trial results.

Finally, controlling toxic chemicals is the issue that puts the EPA on the list. Its Integrated Risk Information System, which contains assessments of more than 500 toxic chemicals, is at serious risk of becoming obsolete, because the EPA has been

unable to keep its existing assessments current or to complete assessments of important chemicals of concern.

GAO is removing the FAA's air traffic control modernization program from its 2009 list because of FAA's progress in addressing most of the root causes of its past problems and the agency's commitment to sustaining progress.

In announcing the release of the 2009 update of the High-Risk List, Dodaro also noted that progress had been made—though not yet enough to remove the high-risk designation—in many of the areas remaining on the list.

High-Risk Series: An Update, January 2009, GAO-09-271, is available online at <http://www.gao.gov/docsearch/featured/highrisk.html>.

GAO's Oversight of the Financial Crisis

Under the Emergency Economic Stabilization Act, which was signed into law on October 3, 2008, GAO is responsible for reporting to Congress every 60 days on its monitoring of the Troubled Asset Relief Program (TARP), including

- TARP's performance in meeting the purposes of the act,
- the financial condition and internal controls of TARP, its representatives, and agents,
- the characteristics of both asset purchases and the disposition of assets acquired, including any related commitments that are entered into,
- the program's efficiency in using the funds appropriated for its operation,
- TARP's compliance with applicable laws and regulations,
- efforts to prevent, identify, and minimize conflicts of interest of those involved in TARP's operations, and
- the efficacy of contracting procedures.

On December 2, 2008, GAO issued its first 60-day report on the TARP. Focusing on transactions, infrastructure, the system of control, contracting, and performance indicators, GAO found that the Department of the Treasury had yet to address a number of critical issues, including those involving the Capital Purchase Program (CPP)—a preferred stock and warrant purchase program through which Treasury provided more than \$150 billion to 52 institutions as of November 25, 2008. GAO found that Treasury had yet to address how it will ensure that CPP is achieving its goals and monitoring compliance with limitations on executive compensation and dividend payments. As a result of its study and to help ensure the integrity, accountability, and transparency of CPP, GAO recommended improvements in reporting and communication, hiring and staffing, internal control, preventing conflicts of interest, and ensuring that participating institutions comply with key program requirements.

On January 30, 2009, GAO issued its second 60-day report on the TARP. As of January 23, 2009, Treasury had disbursed about \$293.7 billion of the \$700 billion in program funds. Most of the funds (about \$194.2 billion) went to purchase preferred shares of 317 financial institutions under CPP. In response to GAO's recommendations in the first report, Treasury developed plans to survey the largest 20 institutions monthly to monitor lending and other activities and to analyze quarterly monitoring data (call reports) for all institutions. GAO called the monthly survey "a step toward greater transparency and accountability for the largest institutions," but said additional action is needed to better ensure accountability for all participating institutions.

Treasury has not yet finalized its plans for developing a system for detecting noncompliance with key requirements of the program. It has made limited progress in communicating an overall strategy for TARP—continuing to respond to institution- and industry-specific needs—and has not yet developed a strategic approach to explain how its various programs work together to fulfill TARP's purposes or how it will use the remaining funds. GAO also reported—while recognizing the need

for swift responses—that the lack of a clearly articulated vision has complicated Treasury’s ability to effectively communicate to Congress, the financial markets, and the public on the benefits of TARP and has limited its ability to identify personnel needs.

Treasury has also taken steps to address GAO’s recommendations in hiring, conflicts of interest, and contracting oversight. In addition, it has adopted a framework for organizing the development and implementation of its system of internal control for TARP activities and plans to use the framework to develop specific standards and policies, drive communications on expectations, and measure effectiveness of internal control policies and procedures. However, GAO believes that it is too early to see measurable results in many areas, and it will remain difficult to separate the impact of TARP activities from the effect of other economic forces.

GAO also has a large portfolio of oversight work that extends beyond TARP, including issues involving derivatives, credit default swaps, and federal government loans to the automakers. GAO is also responsible for auditing the annual financial statements of the Office of Financial Stability, which was established within the Treasury to implement TARP, and for issuing special reports on any issues that emerge.

On January 8, 2009, GAO issued a report on the financial regulatory system that lays out options for revamping the regulatory system. According to GAO Director Orice Williams, the report does not make proposal on what the framework should be, but rather suggests what to consider in structuring the framework or crafting a structure proposal.

Troubled Asset Relief Program: Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency, December 2, 2008, [GAO-09-161](#), and testimony, December 10, 2008, [GAO-09-266T](#).

Troubled Asset Relief Program: Status of Efforts to Address Defaults and Foreclosures on Home Mortgages, testimony, December 4, 2008, [GAO-09-231T](#).

Troubled Asset Relief Program: Status of Efforts to Address Transparency and Accountability Issues, January 30, 2009, [GAO-09-296](#).

Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System, January 8, 2009, [GAO-09-216](#).

Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System, testimony, January 14, 2009, [GAO-09-310T](#); testimony, January 21, 2009, [GAO-09-314T](#).

Federal Government Consolidated Audit and TARP

For the 12th year in a row, GAO was prevented from expressing an opinion on the consolidated financial statements of the U.S. government—other than the Statement of Social Insurance—because of numerous material internal control weaknesses and other limitations.

“While significant progress has been made in improving financial management since the federal government began preparing consolidated financial statements 12 years ago” Acting Comptroller General Gene L. Dodaro said in commenting on the release of the audit report, “three major impediments have continued to prevent us from rendering an opinion on the accrual basis consolidated financial statements over this period of time.” The impediments are: serious financial management problems at the Department of Defense, the federal government’s inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and the federal government’s ineffective process for preparing the consolidated financial statements.

Dodaro also called attention to three additional material weaknesses related to improper payments, information security, and tax collection activities and three major federal departments and agencies that did not get clean opinions: the Department of Defense, the Department of Homeland Security, and the National Aeronautics and Space Administration.

The next consolidated audit is expected to feel the effects of TARP. Dodaro told members at a recent advisory council meeting, "We need to lay the ground work in our 60-day [TARP] reports to build up to the financial audit report." As part of the 60-day report, GAO is directed to report on internal control and compliance with applicable laws and regulations, and certain areas will feed into the consolidated financial audit, such as valuation, identifying the TARP reporting entity, and compliance controls. "From the financial audit perspective," GAO Director Gary Engel said, "we will be looking at this area in coordination with our reporting efforts."

GAO's audit report is included in the *Financial Report of the United States Government*, which also includes financial information from the 24 major federal departments and agencies and is issued by the Treasury Department.

The *Financial Report of the United States Government* is available on GAO's Web site at <http://www.gao.gov/financial/fy2008financialreport.html>.

2008 PAR and Citizens' Report

A citizen-friendly booklet summarizing GAO's Performance and Accountability Report (PAR) for fiscal year 2008 was issued in November. The format of the *Citizen's Report* is designed to be easier to read and more meaningful and transparent to the public as well as to Congress. The guide includes a 2-page budget, performance, and financial snapshot of the agency, followed by more details on performance and financial information.

The PAR reports on GAO's work and results in fulfilling its mission, which GAO has defined in four broad strategic goals: helping to address challenges to the well being and economic security of the American people; U.S. national and homeland security efforts; modernizing government to meet current and emerging issues; and an internal goal, enhancing GAO's business and administrative processes through investments in human capital, financial management, information technology, and processes and systems needed to support the agency and Congress.

The bottom line on GAO's accomplishments as presented in the *Citizen's Report*: GAO met or exceeded all mission-related targets by, for example, identifying \$58.1 billion in financial benefits—a return of \$114 for every dollar GAO spent—and nearly 1,400 improvements in government programs and operations. The rate at which GAO's recommendations were implemented by federal agencies or the Congress rose to 83 percent. GAO testified at more than 300 hearings before Congress—the second highest performance in over 25 years. Topics on which GAO testified include progress in U.S. counterterrorism measures and efforts in the Middle East and South Central Asia; the need for stronger regulation over financial institutions; and federal programs and areas considered at high risk for fraud, waste, abuse, and mismanagement.

The citizens' report has been posted on GAO's web site. *Citizens' Report: Fiscal Year 2008 Summary of GAO's Performance and Financial Results*, January 15, 2009, [GAO-09-2SP](#).

U.S. Government Accountability Office: Performance and Accountability Report Fiscal Year 2008, November 14, 2008, [GAO-09-1SP](#).

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



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

PCAOB Standards Update*

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

Prepared for *The Auditor's Report* (Spring 2009)

This update addresses selected PCAOB developments since the [Fall 2008 Update](#) that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed here relate to a suite of seven proposed risk assessment standards, a practice alert on auditing in the current economic environment, staff guidance on auditing internal control of smaller public companies, and a report on the first four years of PCAOB inspections of the eight largest firms.

Proposed Risk Assessment Standards: On October 21, 2008, the [PCAOB proposed for public comment a suite of seven new auditing standards](#) related to the auditor's assessment of risk and responses to those risks, as well as related conforming amendments to other standards. The proposed standards would supersede the Board's interim auditing standards related to audit risk and materiality, audit planning and supervision, consideration of internal control in an audit of financial statements, audit evidence, and performing tests of accounts and disclosures before year end.

The proposed standards would establish requirements and provide direction on audit procedures performed throughout the audit, from the initial planning stages, through the evaluation of the audit results, to forming the opinion(s) in the auditor's report. The proposals build upon and attempt to improve the existing framework for risk assessment by, among other things, taking account of improvements in risk assessment methodologies, enhancing the integration of the risk assessment standards with the Board's standard for the audit of internal control over financial reporting, emphasizing the auditor's responsibilities for considering the risk of fraud as being a central part of the audit process, and reducing unnecessary differences with the risk assessment standards of other auditing standard setters. The comment period ends February 18 and readers may view comments at [PCAOB Rulemaking Docket 026](#).

The seven proposed risk assessment standards are as follows:

- ***Audit Risk in an Audit of Financial Statements***. This proposed standard describes the components of audit risk and the auditor's responsibilities for reducing audit risk to an appropriately low level in order to obtain reasonable assurance in an audit of financial statements.
- ***Audit Planning and Supervision***. This proposed standard describes the auditor's responsibilities for planning the audit, including assessing matters that are important to the audit, and establishing an appropriate audit strategy and audit plan. The proposed standard also describes the responsibilities of the engagement partner and other engagement team members for supervising and reviewing the work of the engagement team.
- ***Identifying and Assessing Risks of Material Misstatement***. This proposed standard describes the

auditor's responsibilities for identifying and assessing risks of material misstatement. The risk assessment process discussed in the proposed standard includes information-gathering procedures to identify risks (e.g., obtaining an understanding of the company, its environment, and its internal control) and analysis of the identified risks.

- ***The Auditor's Responses to the Risks of Material Misstatement.*** This proposed standard sets forth the auditor's responsibilities for responding to the risks of material misstatement, including overall responses related to the general conduct of the audit and responses involving specific audit procedures.
- ***Evaluating Audit Results.*** This proposed standard describes the auditor's responsibilities regarding the process of evaluating the results of the audit in order to form the opinion(s) to be presented in the auditor's report. This process includes evaluating uncorrected misstatements and control deficiencies identified during the audit.
- ***Consideration of Materiality in Planning and Performing an Audit.*** This proposed standard sets forth the auditor's responsibilities for applying the concept of materiality, as described by the federal securities laws, in planning the audit and determining the scope of the audit procedures.
- ***Audit Evidence.*** This proposed standard sets forth the auditor's responsibilities regarding designing and applying audit procedures to obtain sufficient appropriate evidence to support the opinion(s) in the auditor's report. In particular, it discusses the principles for determining the sufficiency and appropriateness of audit evidence.

Practice Alert on Auditing in the Current Economic Environment: On December 5, 2008, the PCAOB issued a [Staff Audit Practice Alert](#) to assist auditors in identifying matters related to the current economic environment that might affect audit risk and require additional emphasis in audits of financial statements and audits of internal control over financial reporting. The alert highlights special auditing risks and challenges related to the current economic environment, including discussion related to the following six areas:

- Overall audit considerations
- Auditing fair value measurements
- Auditing accounting estimates
- Auditing the adequacy of disclosures
- Auditor's consideration of a company's ability to continue as a going concern
- Additional audit considerations for selected reporting areas

Staff Guidance on Auditing Internal Control of Smaller Public Companies: On January 23 the PCAOB published [Staff Views – An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies](#). This publication was developed by the staff of the PCAOB Office of the Chief Auditor to help auditors apply the provisions of PCAOB Auditing Standard No. 5. Although this staff guidance is not a rule of the Board and does not establish new requirements, it is intended to help auditors design and execute audit strategies that will achieve the objectives of Auditing Standard No. 5. In developing the guidance, the staff organized a working group composed of auditors who have experience with audits of internal control over financial reporting in smaller, less complex companies. The auditors identified issues that pose particular challenges in auditing internal control in such companies and provided insights and examples based on their experiences in addressing these issues.

Issues that are addressed in the publication include:

- Scaling the audit for smaller, less complex companies
- Evaluating entity-level controls
- Assessing the risk of management override and evaluating mitigating actions
- Evaluating segregation of duties and alternative controls
- Auditing information technology controls in a less complex information technology environment

- Considering financial reporting competencies and their effects on internal control
- Obtaining sufficient competent evidence when the company has less formal documentation
- Auditing smaller, less complex companies with pervasive control deficiencies

Report on First Four Years of PCAOB Inspections of Largest Firms: On December 5, 2008, the PCAOB released a [report summarizing the inspection findings of the eight domestic accounting firms](#) that were subject to annual inspections over the past four years. The Board issued this report to highlight certain areas where its inspectors of the domestic annually inspected firms identified deficiencies and to describe some of the steps particular firms have implemented in an effort to remediate the deficiencies and improve their audits. The report should be of high interest and usefulness to auditing educators, researchers, and students as well as practicing auditors.

The report describes how the PCAOB inspection process focuses on the most challenging and high risk areas of the audit, including areas that are fundamental to any audit, such as testing of revenue, as well as areas that pose increasingly challenging issues in current market conditions, such as testing of fair value measurements. The report describes deficiencies observed in these areas, as well as deficiencies in the following additional audit areas: identifying departures from generally accepted accounting principles (GAAP); auditing of management's estimates, income taxes, and internal control; performing analytical procedures and audit sampling; using the work of specialists; and assessing materiality, audit scope, and audit differences. The report also includes information on changes in the quality control systems that firms have described in remediation plans submitted in response to the first years of inspection reports. These include changes to firm structure, partner evaluation processes, internal inspection programs, procedures for using the work of foreign affiliates, and processes for compliance with independence requirements.

Although researchers, educators, and others should find the report to be useful in their work, the report cautions against using the report to draw broad conclusions about the quality of audits performed by any (or all) of these firms. The report points out that the total number of audits reviewed during the four-year period, while substantial, constituted a relatively small portion of the total audits of issuers performed by these firms, and the selection of audits for review was not, and was not intended to be, a representative sample of the audits that the firms performed. In addition, a review of an audit generally encompassed only certain aspects of the firm's performance of that audit. These aspects were selected based principally on perceived risk.

****Gary Holstrum** is former PCAOB Associate Chief Auditor and Director of Research in the Office of Chief Auditor.

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

Gregory Scates is PCAOB Deputy Chief Auditor.

*Note the hyperlinks to various items on the PCAOB Web site (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 Update articles in the [Spring 2005](#), [Summer 2005](#), [Fall 2005](#), [Spring 2006](#), [Summer 2006](#), [Fall 2006](#), [Spring 2007](#), [Summer 2007](#), [Fall 2007](#), [Spring 2008](#), [Summer 2008](#), and [Fall 2008 Update](#) 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 scatesg@pcaobus.org.



THE AUDITOR'S REPORT

Volume 32, No 2
Winter 2009

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Update on the IAASB's Activities 2008

**William R. Kinney Jr., the University of Texas at Austin, and IAASB member,
James M. Sylph, IFAC Executive Director, Professional Standards, and Kathleen
Healy, IAASB Technical Manager**

This update provides an overview of some of the major activities of the International Auditing and Assurance Standards Board (IAASB) during 2008, and draws attention to projects to be undertaken in 2009. The IAASB website, www.iaasb.org, contains links for free access to the documents mentioned in this article as well as more detailed project summaries, IAASB minutes, agenda papers, and related material. Of particular interest to those teaching auditing is the Basis for Conclusions document issued at the end of each project. This explains how the IAASB dealt with the significant issues raised on exposure and why it did or did not accept the comments made by respondents. These documents can be found at <http://www.ifac.org/IAASB/Resources.php#BasisForConclusions>.

The Clarity Project

The IAASB's milestone achievement in 2008 is the completion of the Clarity Project. As a result of this project, commenced in 2003, the IAASB has now issued all its auditing standards in a consistent form. Having also revised many of the auditing standards over the past five years, the end product is a set of up-to-date high quality standards governing the audit of financial statements. The complete set of thirty-six clarified ISAs and [ISQC 1](#) will come into effect for audits of financial statements beginning on or after December 15, 2009.

The IAASB's focus on auditing standards in recent years responded to calls from auditors and regulators to ensure that the ISAs were high quality standards that were worthy of global acceptance and would facilitate convergence. This focus led to (1) the revision of ISAs dealing with areas of highest audit risk to ensure that they are robust and up to date, and (2) the redrafting of all standards to promote consistency in interpretation and international acceptance.

In finalizing the project during 2008, the IAASB approved one new standard, twelve revised and redrafted standards, and twelve redrafted standards that had not been revised.

ISA 200 (Revised and Redrafted), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, sets out the "Clarity conventions" followed in redrafting the standards and the obligations of auditors who follow the standards. Among other matters, the ISA clarifies that the auditor is required to understand the entire text of an ISA to understand its objectives and to apply its requirements properly. It also explains that, in addition to setting out objectives and requirements, ISAs contain guidance for carrying out the requirements. Such guidance may explain more precisely what a requirement means or is intended to cover, or include examples of procedures that may be appropriate. Although such guidance does not in itself impose a requirement, it is relevant to proper application of the requirements of an ISA. ISA 200 (Revised and Redrafted) also introduces new guidance in relation to professional skepticism, professional judgment, the implications of the inherent limitations of an audit, and other matters relevant to applying the ISAs.

The new, and revised and redrafted, ISAs include requirements and guidance that aim to strengthen practice in the following areas:

- Materiality in planning and performing an audit, and its use in evaluating misstatements (ISA 320 and ISA 450).
- Risk assessment, and the gathering and evaluation of audit evidence, in relation to:
 - Accounting estimates (including fair value accounting estimates) and related disclosures (ISA 540).
 - Related party relationships and transactions (ISA 550).
 - An entity's use of a service organization (ISA 402).
- Audit evidence considerations in relation to:
 - External confirmations (ISA 505).
 - Written representations (including implications for engagement acceptance considerations) (ISA 580).
- Using the work of others, in relation to:
 - Audits of group financial statements, including the work of component auditors (ISA 600).
 - Work of an auditor's expert (ISA 620).
- Communication with those charged with governance (ISA 260).
- Communicating deficiencies in internal control to those charged with governance and management (ISA 265).
- Auditor reporting, in relation to:
 - Modifications to the auditor's opinion (ISA 705).
 - Emphasis of Matter paragraphs in the auditor's report (ISA 706).
- Audit and reporting consideration in the context of special engagements (ISA 800, ISA 805, and ISA 810).

Global Acceptance of ISAs

The clarified ISAs will facilitate adoption and convergence around the world and they provide a stable platform from which the IAASB plans to advance convergence.

The ISAs are widely accepted in many jurisdictions, and recognized as appropriate for many capital markets. Over the next few years, the IAASB plans to identify and address barriers to the further adoption of ISAs, and will continue to ensure that the content and breadth of proposed new standards facilitate their global acceptance and adoption. For this reason, initiatives such as developing a framework for reviewing the effectiveness of new ISAs and participating in IFAC's work on impact assessments have been included in our work program.

The IAASB was pleased to note that the U.S. Public Company Accounting Oversight Board, in developing its recently issued exposure draft relating to seven proposed new risk assessment standards, began by considering the ISAs and achieved a degree of commonality while acknowledging certain differences deemed necessary for their purposes.

The IAASB is fully supportive of the AICPA's Auditing Standards Board (ASB) initiative to redraft its Statements on Auditing Standards (SASs) in the Clarity format, and the recent acceleration of the timetable to do so. Two final standards have already been approved, and a number of exposure drafts, including those dealing with risk assessment, are available for public comment. Many jurisdictions use ISAs and are proposing to adopt the clarified standards in accordance with our effective date - for example, the Canadian Auditing and Assurance Standards Board intends to adopt the ISAs as Canadian Auditing Standards (CASs), which will constitute Canadian generally acceptable auditing standards.

Although many European Union (EU) member states are also proposing to adopt the clarified standards, the IAASB has had a special interest in the possible adoption of ISAs under the EU's 8th Company Law Directive. Such adoption would cement the consistent use of the latest ISAs for statutory audit throughout one of the world's major economic blocs. The EU legislative and adoption processes present their own challenges, but the IAASB works constructively with the European Commission (EC) to anticipate and resolve difficulties as they have arisen. A recent draft report from the Committee on Legal Affairs of the EU Parliament has given strong encouragement to making rapid progress with the consultation and adoption. During 2009, the IAASB and IFAC will continue to work closely with the EC as it continues its initiatives toward adoption, including those related to public consultation and translation of the entire suite of clarified standards from English into 21 of the official languages of the EU.

Other Standards and Initiatives

Reports on Controls at a Third-Party Service Organization

Proposed International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Third-Party Service Organization*, is the first subject matter-specific standard developed under the IAASB's *International Framework for Assurance Engagements*. Reports prepared in accordance with proposed ISAE 3402 will be capable of providing appropriate audit evidence under ISA 402 (Revised and Redrafted), *Audit Considerations Relating to an Entity Using a Service Organization*. The proposed standard will facilitate more consistent reporting on controls at service organizations, thereby assisting service organizations to meet the needs of their clients ("user entities") and their auditors, especially for reports issued in one country to meet the requirements of auditors of user entities in other countries.

In the absence of an up-to-date IAASB pronouncement over the past years, [SAS 70](#), developed by the AICPA's Auditing Standards Board, has been accepted in many jurisdictions as the de facto international standard for assurance reports on controls at a third-party service organization. In November 2008, the ASB approved a proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at A Service Organization*, with a February 2009 comment deadline. The explanatory memorandum to this exposure draft noted that the SSAE had been drafted based on the December 2007 exposure draft of ISAE 3402. Differences between the proposed SSAE and the ISAE 3402 exposure draft, that the ASB believed were not supported by any compelling reason, were eliminated. The ASB also included an exhibit that detailed what it believed to be differences in objectives, definitions, or requirements between the proposed SSAE and ISAE 3402.

The revision of SAS 70 provides the IAASB with an opportunity to ensure that the final versions of ISAE 3402 and SAS 70 are aligned to the maximum extent possible, thereby promoting convergence in an important practice area. The IAASB's task force intends to liaise with those working on the SSAE; both standards are expected to be issued in 2009.

Assurance on Carbon Emissions Information

The IAASB believes, and its strategy consultation in 2007 confirmed, that there is a need for timely development of an ISAE dealing specifically with carbon trading to provide a proper reference point as a global trading scheme evolves. Although a global scheme may be some time off, a global assurance standard is needed in the short term so that it can be referenced in national and other schemes, and thus evolve as the global standard in time.

As the use of carbon emissions information becomes more prevalent, the demand for a consistent approach to assurance, and thus the need for an international standard, is likely to grow. During 2008, the task force developed a consultation program to gather views of those directly involved with carbon emissions.

Four roundtables were held during 2008, jointly with IFAC member bodies, to bring together interested parties in Australasia, North America, and Europe. These roundtables allowed more broadly-based users of emissions information and others interested in emissions trading (such as regulators, lawyers, academics, NGOs, and non-accounting assurers and standard setters) to share their views on key issues in this developing area. In addition, a Project Advisory Panel was formed to provide further input. The Project Advisory Panel currently has fourteen members, predominantly from accounting firms and IFAC member bodies, but it also includes a member nominated by INTOSAI and a member from a bank that finances carbon offset projects.

Topics addressed during the IAASB's discussions to date included the following: whether the standard should deal with both reasonable and limited assurance engagements; assertion-based versus direct-reporting engagements; application of a proposed ISAE by non-accountants; the effect of emissions inventory uncertainty; and guidance with respect to the suitability of criteria.

The IAASB will obtain wide stakeholder input before issuing an exposure draft for public comment.

Assurance on Pro Forma Financial Information

Raising international capital efficiently requires information that is understandable across borders, together with assurance designed to enhance users' confidence in that information, regardless of where they are based. Capital markets around the world are becoming more integrated, issuers are increasingly looking to raise capital, and investors are looking to invest capital, on an international rather than a local basis. In the European Economic Area (EEA), the introduction of the [Prospectus Directive](#) gives rise to a clear need for common assurance standards throughout the EEA. Representatives from countries outside the EEA

have advised the IAASB that there is a need for relevant assurance standards. Consequently, there is a desire for global harmonization of the public and private reports provided by professional accountants in connection with prospectuses – particularly to ensure consistency in the procedures the professional accountant should perform to support the report, and the form and content of that report.

The IAASB's strategy consultations confirmed a need in this area. Accordingly, in 2008 the IAASB approved a project proposal to develop an ISAE on assurance reports on pro forma financial information. The ultimate goal of the project is to develop an internationally accepted standard for assurance engagements on pro forma information in prospectuses; however, the development approach is to use an international project task force to focus on a single market model, the EU.

Fair Value Audit Guidance

As part of the Clarity Project, the IAASB approved ISA 540 (Revised and Redrafted), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. This revised standard places more emphasis on (a) areas of higher risk, (b) accounting judgment, and (c) possible bias. Doing so will help the auditor form appropriate conclusions about the reasonableness of estimates in the context of an entity's financial reporting framework. These areas are also of particular importance in the context of fair values and the ISA expands guidance on auditing fair value accounting estimates as compared with extant [ISA 545](#), including audit considerations relating to (a) the proper application of the requirements of the financial reporting framework relevant to such estimates, and (b) the use of models in valuations.

In response to comments received during the course of developing the revised standard, early in 2008 the IAASB formed a task force to determine how best to approach the development of any possible further fair value auditing guidance. Later, the task force was also asked to address the recommendation received from the Financial Stability Forum that the IAASB, major national audit standard setters, and relevant regulators should consider the lessons learned during the market turmoil and, where necessary, enhance the guidance for audits of valuations of complex or illiquid financial products and their related disclosures. The task force, which is comprised of interested parties with relevant perspectives and expertise, considered aspects of the audit of financial statements measured at fair value, including current issues and practice, and consulted with others to ensure that the IAASB's work responded to the global needs of our stakeholders.

As the fair values landscape evolved during 2008, the task force identified specific areas where immediate guidance was necessary. To ensure that those conducting audits were doing so with adequate professional skepticism and in accordance with the currently effective ISAs, the Staff Audit Practice Alert, *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*, a staff-prepared non-authoritative document, was issued in October 2008. Guidance in this form, rooted in the currently effective ISAs and prepared in light of current difficulties in the credit markets, is believed to be relevant to audits of all entities that have investments in financial instruments, especially those in illiquid markets. This document, along with other responses to the global financial crisis from IFAC and other organizations, can be found on the [IFAC website](#).

As noted in the Staff Audit Practice Alert, ongoing initiatives by the International Accounting Standards Board (IASB) to provide guidance for preparers responsible for developing fair values will also be useful to auditors. As the effects of the credit crisis and economic downturn continue to unfold, the IAASB will continue to evaluate whether more audit guidance ought to be given.

Implementation Support

To date, the IAASB has concentrated its efforts on setting clear standards and providing adequate time for their implementation. The IAASB recognizes that (a) the effective implementation of its standards is as important as their development, and (b) it has an important role in addressing the practical implementation challenges experienced by those that have adopted, or are adopting, ISAs. Meeting these challenges, however, requires a joint effort by the IAASB, other IFAC boards and committees, regional and national professional accountancy organizations, the Forum of Firms, national standard setters, regulators, and development agencies.

As the IAASB has only recently completed the Clarity Project, its thinking with regard to possible actions to support implementation is preliminary. Staff of the IAASB is currently considering whether a series of modules could be developed that target specific ISAs, mainly those that have been revised and redrafted, to highlight key concepts such as the following:

- The IAASB's reasons for revising the ISA.
- The scope of the ISA and its objectives.
- Key points of emphasis relating to new or revised requirements (or definitions), to the extent that these will result in changes to existing practice, and major viewpoints considered by IAASB in establishing the requirements.

Our future work in this area recognizes the need to ensure that all our efforts under the Clarity Project are not wasted through inappropriate implementation.

IFAC Policy Position on International Standard Setting in the Public Interest

In December 2008, IFAC released a [policy position](#) on the international standard-setting process. This paper, *International Standard Setting in the Public Interest*, outlines the rationale for the regulatory arrangements put in place for setting international standards for auditing and assurance, ethics, and accounting education – arrangements in which responsibility is shared between the public sector and the private sector.

The paper identifies the underlying principles of legitimacy, independence, accountability, transparency, and performance that are key to a successful standard-setting process, and it describes how the structures and processes of IFAC's independent standard-setting boards in the areas of international auditing, ethics, and accounting education are consistent with these principles.

In the immediate post-Sarbanes-Oxley period, IFAC and the international regulatory community took initiatives to strengthen the international auditing standard-setting process in line with these principles. Among the most important actions was the establishment of the Public Interest Oversight Board (PIOB) to provide independent public interest oversight of the key elements of the standard-setting structure and process. The PIOB, formed in 2005, oversees the IAASB as well as the International Accounting Education Standards Board, the International Ethics Standards Board for Accountants, and the IFAC Member Body Compliance Program.

Other Relevant IAASB Publications

In October 2008, staff of the IAASB issued an *IAASB Clarity Project Update* to help and encourage those with responsibilities relating to audits of financial statements to set in motion plans to ensure that audits will be effectively carried out under the clarified ISAs. This communication highlights matters referred to above and mentions general considerations that may be relevant to a broad group of IAASB stakeholders, including national standard setters, legislators, regulators, oversight bodies, IFAC member bodies, accounting firms, and audit practitioners. It also provides a complete listing of the standards that were revised and redrafted, or redrafted only, as a result of the Clarity Project.

To achieve the widest use and recognition of IAASB standards, the IAASB makes its pronouncements available on its website free-of-charge. IFAC and the IAASB jointly released the 2008 edition of the *Handbook of International Auditing, Assurance, and Ethics Pronouncements*. That handbook contains all pronouncements issued as of December 31, 2007. The ISAs that have been clarified (and which are effective for audits of financial statements for periods beginning on or after December 15, 2009) have been included as Part II of the Handbook to facilitate translation and implementation.

In 2009, the IAASB will release an updated Part II that contains the final versions of all thirty-six clarified ISAs and ISQC 1. These standards will reflect minor drafting changes to a number of finalized ISAs to enhance consistency in the use of language and style of drafting as refined over the course of the Clarity Project, and to address other matters of clarity, an initiative that was agreed by the IAASB at its December 2008 meeting.

A free PDF downloadable version of the Handbook was also released with the printed edition. Individual publications continue to

be available for download free-of-charge from the website.

Membership of the IAASB for 2009

Professor Arnold Schilder, RA was appointed to serve as the Chair of the IAASB for a three-year term beginning January 1, 2009. He brings both a breadth and depth of experience and strong integrity to the position, most recently having served as the Executive Director of De Nederlandsche Bank NV, the prudential supervisor of financial institutions in the Netherlands. His service as a former member of the PIOB will benefit the IAASB as it continues to enhance its working procedures in serving the public interest. In addition, he is a part-time professor of auditing at the University of Amsterdam and is a past President of the Koninklijk Nederlands Instituut van Registeraccountants, IFAC's member body in the Netherlands.

He will be supported by the new Deputy Chair, current IAASB member John Fogarty.

In addition, the IAASB welcomed a number of new appointments and re-appointments as of January 1, 2009 for terms of three years:

Nominated by IFAC Member Bodies

- Phil Cowperthwaite, *Canada*(re-appointed);
- Cédric Gélard, *France*; and
- Ashif Kassam, *Kenya*.

Nominated by the IFAC Transnational Auditors Committee

- Diana Hillier, (re-appointed); and
- Dan Montgomery,

Public Members

- Steen Jensen, *INTOSAI*;
- Tomokazu Sekiguichi, *Japan*; and
- David Swanney, *United Kingdom*(re-appointed).

The IAASB's seventeen volunteer members and one full-time Chairman now represent eleven countries: Australia, Canada, China, Denmark, France, Germany, Japan, Kenya, Pakistan, the United Kingdom, and the United States. Representatives from the European Commission, the Japanese Financial Services Agency, and the U.S. Public Company Accounting Oversight Board also serve as non-voting observers with speaking rights at the IAASB meetings.

International Standard on Quality Control (ISQC 1), ***Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements***.

Statement of Auditing Standards Number 70, ***Service Organizations***. The revision of SAS 70 will result in 2 separate standards – an auditing standard similar to ISA 402 (Revised and Redrafted), and the proposed SSAE discussed above.

With the introduction of the Prospectus Directive (the "Directive") and Prospectus Regulation (the "Regulation"), a European regime for prospectuses became effective on 1 July 2005. The Directive and Regulation were part of ***Financial Services: Implementing the framework for financial markets: Action Plan***, published by the European Commission in 1999. The action plan identified a series of legislative actions needed to deliver components of a single European Capital Market.

ISA 545, ***Auditing Fair Value Measurements and Disclosures***.

[For more information about the various initiatives of the IAASB and IFAC, please visit http://www.ifac.org/financial-crisis/.](http://www.ifac.org/financial-crisis/)

The update may be downloaded from the IAASB's website at http://web.ifac.org/download/IAASB_Clarify_10-08.pdf.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Have You Seen...?

Pennie Bagley, Texas Tech University
Albert Nagy, John Carroll University
Gary Peters, University of Arkansas

“Audit Committee Incentive Compensation and Accounting Restatements”, by D. Archambeault, F. T. Dezoort, and D. Hermanson, *Contemporary Accounting Research* (Volume 25, Issue 4, 2008): 965-992.

This study investigates the association between audit committee incentive-based compensation and financial reporting failures reported as restatements. The authors evaluate whether short-term and long-term incentive compensation for audit committee members is associated with accounting restatements due to error or fraud. Using a matched sample logistic regression, the authors find a significant positive relation between short term option grants for audit committee members and restatement likelihood. The authors conclude that short-term options may reduce oversight quality by causing audit committee members to focus heavily on short-term performance.

“The Market Reaction to Arthur Andersen’s Role in the Enron Scandal: Loss of Reputation or Confounding Effects?”, by K. Nelson, R. Price, and B. Rountree, *Journal of Accounting and Economics* (Volume 46, Issues 2-3, 2008): 279-293.

The authors investigate whether the negative client stock returns following the revelation that Enron documents had been shredded are attributable to confounding effects as opposed to a loss of Andersen’s reputation. Consistent with prior research, this study finds that Andersen clients experienced a negative abnormal return in the event window surrounding the shredding announcement. However, the authors show that the results are strongly influenced by the Energy sector; a sector in which Andersen, and in particular their Houston office, was heavily involved. The authors conclude that the significant market decline for Andersen clients in the days following the shredding announcement is attributable to these confounding factors, and not a reflection of the auditor’s damaged reputation.

“Does Audit Quality Matter More for Firms with High Investment Opportunities?” by K-W Lai, *Journal of Accounting and Public Policy* (Volume 28, Issue 1, 2009): 33-50.

This paper examines the association of firms with high investment opportunities with high quality audits (proxied by Big 5 auditors) and whether that association results in a lower likelihood of earnings management. The results show that firms with high investment opportunities are more likely to have more discretionary accruals than firms with low investment opportunities. However, this relationship is weaker when those firms are audited by Big 5 auditors. The author concludes from these results that the likelihood of earnings manipulation is higher for firms with high investment opportunities but a

high quality audit is able to curb the manipulation.

“Internal Auditors’ Evaluation of Fraud Factors in Planning an Audit: The Importance of Audit Committee Quality and Management Incentives”, by S. Asare, R. Davidson, and A. Gramling, *International Journal of Auditing* (Volume 12, Issue 3, 2008): 181-203.

This study examines internal auditors’ fraud risk decisions in response to variations in audit committee quality and management performance incentives. The authors conduct two experiments in which internal auditors are asked to assume the role of either planning an audit of the company at which they are employed (self-assessment) or planning an audit of a potential acquisition target company (due diligence). The results show that internal auditors in both roles were sensitive to variations in management performance incentives and altered their audit plans accordingly. In regards to audit committee quality, the internal auditors’ responses to variations in quality depended on their assigned role. The authors conclude that, for at least one fraud factor, internal auditors’ fraud assessments and related planning decisions may be contingent on their positional role.

“Client Characteristics and the Negotiation Tactics of Auditors: Implications for Financial Reporting,” by R. C. Hatfield, C. P. Agoglia, and M. H. Sanchez, *Journal of Accounting Research* (Volume 46, Issue 5, 2008): 1183-1207.

Using two experiments, this paper investigates whether auditors will employ a reciprocity-based strategy for the resolution of audit differences and how client negotiating style and retention risk impact the extent to which this strategy is used. A reciprocity-based strategy is one in which the auditor brings inconsequential items to management and subsequently waives these items in an attempt to encourage management cooperation in the posting of significant income-decreasing adjustments. Experiment 1 results reveal that auditors are more likely to utilize a reciprocity-based strategy when management has a competitive negotiation style and the retention risk is high. Experiment 2 results suggest that using a reciprocity-based strategy in this scenario will result in more conservative financial statements than when no specific strategy is employed.

“Can Audit Partners Predict Subordinates’ Ability to Detect Errors?” by W. F. Messier, Jr., V. Owhoso, and C. Rakovski, *Journal of Accounting Research* (Volume 46, Issue 5, 2008): 1241-1264.

Using an experiment, this paper investigates how well audit partners can predict the ability of managers and seniors to detect financial statement errors. Specifically, audit partners are asked to predict whether subordinates (seniors and managers) are able to detect specific types of errors. Partner predictions are then compared to actual performance of the subordinates. The results reveal several insights. First, partners are overconfident in their subordinates’, specifically, seniors’ ability to detect errors. Secondly, partners are more accurate predicting managers’ rather than seniors’ performance. Third, partners are more accurate in predicting ability to detect mechanical versus conceptual errors. And lastly, partners are not better at predicting subordinates ability to detect more frequent and more important errors than less frequent and less important errors.

“Does Increased Audit Partner Tenure Reduce Audit Quality?” by D. L. Manry, T. J. Mock, and J. L. Turner, *Journal of Accounting, Auditing, & Finance* (Volume 23, Issue 4, 2008): 553-572.

This paper uses archival data to investigate the relationship between audit partner tenure and audit quality, measured as discretionary accruals. The Sarbanes-Oxley Act mandates that the lead and reviewing audit partner of an engagement rotate off the engagement every 5 years, implying that as partner tenure increases, audit quality will decrease. The authors find results that indicate the opposite. They find that discretionary accruals are negatively associated with audit partner

tenure; in short, that audit quality increases as partner tenure increases. Further analysis reveals this result is driven by small clients. As partner tenure increases, auditors of small clients become less willing to accept more aggressive financial statement treatment. Partner tenure does not affect audit quality for large clients or for shorter-tenure clients.

“The Construction of Auditability: MBA Rankings and Assurance in Practice,” by C. Free, S. E. Salterio, and T. Shearer, *Accounting, Organizations and Society* (Volume 34, 2009): 119-140.

The purpose of this study is to shed light on the processes by which audit scope, practices, and communications are established for assurance services auditors provide in new domains. The authors investigate these issues through a field study of KPMG's “audit” of the *Financial Times* MBA rankings, a project intended to lend more legitimacy to the rankings. The authors note from their investigation that audit planning, procedures, and communicated written conclusions are completed in a much more negotiated and interactive process than one would expect.

“Establishing a Baseline for Assessing the Frequency of Auditors’ Comments Concerning Perceived Client Integrity,” by R. A. Bernardi, *Managerial Auditing Journal* (Volume 24, Issue 1, 2009): 4-21.

Using an experiment, this paper examines whether comments made by then Big-Six auditors regarding their post-audit perceptions about client integrity were influenced by their firm's rating of the client's integrity prior to the beginning of the audit. Results reveal that the auditors were insensitive to client integrity ratings established in the planning phase of the audit. The study, conducted pre-standards requiring a preliminary assessment of fraud risk, can be used as a baseline for evaluating the effectiveness of such standards.

[Back to Contents Page](#)

“Have You Seen These Instructional Resources?”

By the 2008-2009 Education Committee of the Auditing Section of the AAA

Greg Jenkins, Chair – Virginia Tech

Patricia Myers – Brock University

Paul Polinski – University of Illinois at Urbana-Champaign

Jay Rich – Illinois State University

Richard Riley - West Virginia University

Pamela Roush – University of Central Florida

Ray Whittington – DePaul University

<i>Format</i>	<i>Title</i>	<i>Date</i>	<i>Source</i>	<i>Description</i>	<i>How to Obtain</i>
Acrobat	Report on the PCAOB's 2004, 2005, 2006, and 2007 Inspections of Domestic Annually Inspected Firms	12/5/2008	PCAOB web site	Summarization of issues in the first four years of annual inspections of the largest eight accounting firms.	http://www.pcaobus.org/News_and_Events/News/2008/12-05.aspx
Acrobat	An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies	1/23/2009	PCAOB web site	Official release of guidance for how AS/5 should be applied to small- and medium-cap filers.	http://www.pcaobus.org/News_and_Events/News/2009/01-23.aspx
Acrobat	Staff Audit Practice Alert No. 3: Audit Considerations in the Current Economic Environment	12/5/2008	PCAOB web site	Q&A on how the current financial market turbulence and economic conditions may affect the auditor's work, including the auditing of fair values.	http://www.pcaobus.org/Standards/Staff_Questions_and_Answers/index.aspx
PDF	10 Minutes on IFRS	October 2007	PWC	A short version that explains, in a simple manor, the impact of conversion from U.S. GAAP to International Financial Reporting Standards (IFRS). The framework is used by most of the world today, so knowledge of IFRS conversion is beneficial.	http://www.pwc.com/images/us/eng/about/10minutes/PwC_10Minutes_102007.html

Acrobat	Ten Things About Financial Statement Fraud - 2nd Edition	December 2008	Deloitte Forensic Center	The Committee of Sponsoring Organizations of the Treadway Commission produced a comprehensive report on fraud in 1999. This document discusses the results of the Deloitte Forensic Center's analysis of hundreds of SEC enforcement releases issued from 2000 to 2007.	http://www.deloitte.com/dtt/cda/doc/content/us_dfc_ttf2ndedition_26112008%283%29.pdf
---------	----------------------------------------------------------	---------------	--------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------



Volume 32, No 2
Winter 2009

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Thirty Three Years of Audit Research

The Research Committee, comprised of Joe Brazel (chair), Jeff Cohen, Christine Earley, Greg Jenkins, and Jack Krogstad, has recently updated the Section's database of auditing research to include 33 years of audit research. The database documents all auditing articles published in the following journals *Accounting, Organizations and Society, Auditing: A Journal of Practice and Theory, Behavioral Research in Accounting, Contemporary Accounting Research, Journal of Accounting and Economics, Journal of Accounting and Public Policy, Journal of Accounting Research, and The Accounting Review*. The articles are also classified by the following research methods: Analytical, Archival, BDM Experiment, Experimental Economics, Questionnaire Survey, and Other. The database can be found at: <http://aaahq.org/audit/research.htm>

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Submissions

Sixteenth Annual Midyear Auditing Section Conference | San Diego, CA

Mark your calendars now for the Fifteenth Annual Midyear Auditing Section Conference that will be held **January 14–16, 2010 at the** Westin San Diego. A Doctoral Consortium will be held on January 14, 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. An award will be given for the **Best Ph.D. Student Paper** submitted to the conference. Authors must indicate that they would like to be considered for the Best Ph.D. Paper award at the time of submission. 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. Details on how to do so will be posted to the Auditing Section website.**

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.¹ 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 2009 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 2010 Midyear Auditing Section Conference may also be submitted for presentation at the AAA Annual Meeting scheduled for August 2010.

SUBMISSION DEADLINE

Submissions must be received by **August 31, 2009**, to be considered for the program. Early submission is highly encouraged. Any questions should be addressed to Jennifer Joe (jjoe@gsu.edu) or Susan Shu (shus@bc.edu).

¹Also, please be sure to remove all identification of the authors, including changing the document "Properties" to "anonymous".



THE AUDITOR'S REPORT

Volume 32, No 2
Winter 2009

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Nominations - Auditing Section Awards

Notable Contribution to the Auditing Literature Award

The Auditing Section seeks submissions for the Notable Contribution to the Auditing Literature Award. The award will recognize a published work of exceptional merit that has made, or has the potential to make, a direct contribution to auditing or assurance research, education, and practice. To be eligible for submission, a work must have been published during the ten-year period ended December 31, 2008, and at least one of the authors of the published article, chapter, book, or monograph must be a current member of the Auditing Section. Selection of the award winner will be made by the Auditing Section's Notable Contribution to the Auditing Literature Award Committee. The award will be presented at the 2010 Midyear Conference of the Auditing Section.

A work may be submitted either by the author or another individual with an interest in auditing research, education, or practice. Submissions must include (1) a nomination letter stating why the work is deserving of special recognition and (2) the submitted work.

Nominations should be sent via email by **July 1, 2009** to:

Urton Anderson

urton@mail.utexas.edu

Outstanding Auditing Dissertation Award

The Auditing Section seeks nominations for its annual Outstanding Auditing Dissertation Award. The author of the dissertation judged to make the most outstanding contribution to auditing knowledge among those dissertations nominated for consideration, in addition to the recipient's dissertation chair, will receive the award. Beginning with the award made at the 2009 Midyear Conference, a monetary award of \$2,500 will be provided to the author of the dissertation.

The assessment of what constitutes an outstanding contribution will be based upon, but not limited to, the following criteria:

- The timeliness and importance of the problem(s) addressed.
- The creativity of the research.
- The development of an appropriate theoretical framework.
- The appropriateness of the research method and analysis.
- The potential for publication in a scholarly journal.
- The potential for the results to have an impact on the practice of auditing.

Selection of the award winner will be made by the Section's Outstanding Dissertation in Auditing Committee. A dissertation

can be nominated either by the author or one or more members of the dissertation committee. Nominations will be considered complete when the following materials have been submitted:

- A letter from the dissertation chairperson stating that the dissertation has been completed and accepted by the degree-granting institution between January 1, 2007 and December 31, 2008 (dissertations can be nominated more than once).
- A nomination letter stating why the dissertation is deserving of special recognition.
- An electronic copy of a paper from the dissertation that meets the criteria for papers submitted to *Auditing: A Journal of Practice & Theory* (refer to the latest issue for requirements related to length and other matters, e. g., submission of experimental instruments).
- An electronic copy of the entire dissertation

Nominations should be sent via email by **July 1, 2009** to:

Urton Anderson

urton@mail.utexas.edu

Innovation in Auditing and Assurance Education Award

The Innovation in Auditing and Assurance Education Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2010. The purpose of this award is to encourage innovation and improvement in auditing and assurance education. The award will recognize a significant activity, concept, or materials. The criteria used to judge the submissions include, but are not necessarily limited to:

- (1) innovation,
- (2) educational benefits, and
- (3) adaptability by other educational institutions or to other situations.

Nominations may include, for instance, a set of teaching materials, a creative instructional strategy, or an insightful teaching approach. The innovation should have been implemented so that evidence of its success can be evaluated. Award winners must be willing to share instructional materials with other members of the Section. Individual faculty members or groups of faculty teaching or preparing materials to be used for auditing and/or assurance education are eligible to apply. Persons may also nominate another faculty member or group of faculty. At least one nominee must be a member of the Auditing Section.

Nominations should be sent via email by **July 1, 2009** to:

Urton Anderson

urton@mail.utexas.edu

Distinguished Service Award in Auditing

The Distinguished Service in Auditing Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2010. This award recognizes outstanding and sustained service to the profession or the Auditing Section. The distinguished careers of past recipients of the award (e. g., Gary Holstrum, Ira Solomon, Tim Bell, Andy Bailey, Zoe-Vonna Palmrose, Lyn Graham, Robert Mautz, Robert Elliott,

William Kinney, Dave Landsittel, and Dan Guy) represent the type of contribution to the profession that exemplifies this recognition.

Nominations should be sent via email by **July 1, 2009** to:

Urton Anderson

urton@mail.utexas.edu

Outstanding Auditing Educator Award

The Outstanding Auditing Educator Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2010. This award is given annually and recognizes outstanding contributions to the field of auditing education. Prior recipients of this award include Steve Albrecht, Dan Simunic, Ted Mock, Andy Bailey, Ira Solomon, William Kinney, William Felix, Nick Dopuch, Barry Cushing and Larry Rittenburg, Stan Biggs, and William Messier.

Nominations should be sent via email by **July 1, 2009** to:

Audrey A. Gramling

agramli1@kennesaw.edu

[Back to Contents Page](#)



Volume 32, No 2
Winter 2009

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

ACCOUNTING EDUCATION: an international journal

(The official education journal of the IAAER)

CALL FOR PAPERS

Audit Education

Accounting Education: an international journal invites submissions for a themed issue on the topic of audit education. Audit professionals are valued members of society who are expected to be both skilled and ethical decision makers. There are also expectations as to their knowledge in accounting and the profession, computers and systems, law, regulation, risk management and team-building. Engaging learners in such skills and responsibilities is important for our future economic, social and political well-being. Yet, despite its importance, audit education is perhaps an unheralded field. We look forward to sharing knowledge that the academic community can provide about this important topic.

Submissions should be original work which combines in some manner audit or assurance and education or training. The editors are open to quality research in any paradigm including, for example, field or experimental investigations, archival or survey research, interpretive or critical studies and case study research. Assessing practice is a global challenge, so we also encourage international studies. The following list is indicative of topics of interest but is not intended to be exhaustive:

Education or Training or Educational standards or Learning AND

- Audit decision-making and/or ethics
- Audit risk or audit evidence
- Audit history, law or regulation
- Audit profession
- Internal, VFM or other special audits
- International audit practice or regulation
- Reports or opinions
- Audit control systems or analysis
- Audit sampling
- Analytical procedures
- Other assurance services

The deadline for submissions is **December 15, 2009**, with publication currently scheduled for late 2010. Early submissions are welcome, and potential contributors are encouraged to notify us of their interest. Submissions should be made electronically in accordance with *AE's* policies and style and sent to either guest editor:

Guest Editors

Professor Karen Van Peurse
Department of Accounting
University of Waikato
PB 3105 Hamilton
NEW ZEALAND
kvp@waikato.ac.nz

Dr Elizabeth Monk
School of Accounting & Finance
University of Dundee
Dundee, DD1 4HN
Scotland, UK
e.a.monk@dundee.ac.uk

[Back to Contents Page](#)



THE AUDITOR'S REPORT

Volume 32, No 2
Winter 2009

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION



AUSTRALIAN ACCOUNTING REVIEW
Call for Papers – Special Issue on:
Relationship between Research and Practice
Guest Editor:
Yves Gendron, Université Laval, Québec

Submission Deadline: November 30th, 2009

Background Information

Australian Accounting Review (AAR) is the pre-eminent, peer-reviewed journal published four times a year on behalf of CPA Australia. AAR is positioned at the intersection of business and academe and features articles by practitioners and researchers. It aims to provide in-depth discussion and critical analysis of developments affecting professionals in all areas of finance, accounting and business.

AAR is covered since September 2008 by the **Social Sciences Citation Index (SSCI)**.

Details

Accounting research is often conceived of as applied research, in that its main object of study is made up of a field of practices and technologies used by practitioners – in contrast to physics or chemistry where objects of study are not interested and do not react to what is written about them. The relationship between the fields of accounting research and accounting practice matters. Linkages between the two areas are undeniably multifaceted and complex, involving issues such as application, mutual criticism, demographics, power and professionalization. However, in spite of their significance, research on the linkages between accounting research and practice is embryonic in many respects. This special issue aims to contribute to literature in this regard.

The special issue aims to publish high-quality articles which collectively deal with a variety of themes and rely on a range of theoretical lenses. Submission of manuscripts which conceive of linkages between research and practice in original ways is particularly encouraged. All research methodologies are welcome: thoughtful essays; historical analyses; qualitative or quantitative empirical studies; and papers written by practitioners from their experience. Although the focus of the special issue is on the relationship between accounting research and practice, manuscripts which deal with broader though related objects of study, for instance the relationship between business research and practice, will also be considered. Examples of relevant themes (though not exhaustive) are:

1. What are the main representations of the relationship between research and practice that are found in accounting literature? Have these representations changed over time? What role do these representations play in society?
2. How do practitioners and their values exert influence on academic research? Do practitioners favour some types of research to the detriment of others? What implications arise from these preferences?
3. How is research quantified, measured and represented through accounting technologies and accountability mechanisms? What impact do these technologies and mechanisms have on research?
4. Is the concept of *relationship* between research and practice more mythical than reality?
5. Does accounting research produce “useful” knowledge in light of significant issues such as IFRS (International Financial Reporting Standards) harmonization, the regulation of auditor independence, and the globalization of capital markets?
6. How is “usefulness of research” linked to research legitimacy?
7. Journal rankings are increasingly viewed as exerting significant influence on research. How does practice influence business journal rankings (e.g., Financial Times ranking)?
8. On what basis can we separate the wheat from the chaff regarding accounting practitioners’ never-ending complaints regarding the relevance of accounting research?
9. What influence do organizations such as the AACSB (Association to Advance Collegiate Schools of Business) have on accounting research? Do practitioners’ values play a key role in this influence?
10. Have new public management and the reduction of state funding translated into academic research which is increasingly “captured” by practitioners?
11. How do the fields of accounting research and practice influence one another regarding the social reproduction of researchers and practitioners?
12. Which mechanisms are in place within large accounting firms to follow and/or oversee academic research? How is research “translated” in accounting firms’ practices? Are “recommendations to practice” made by a number of accounting researchers in their papers, and executive summaries found in a number of journals, useful to practitioners?
13. What role do accounting researchers play in the development and dissemination of “best practices” regarding accounting technologies and disclosures?
14. Does practice influence promotion mechanisms in universities? If so, how?
15. What is the role of funding mechanisms over researchers, notably in influencing research agendas?
16. How do practitioners perceive proposals from researchers to access data? Are practitioners less open to such proposals than in the past? Is so, why?
17. Etc.

Instructions for Submission

The deadline for submission is November 30th, 2009. Manuscripts ought to be sent via e-mail attachment to the following address: yves.gendron@fsa.ulaval.ca. Manuscripts need to be prepared in accordance with the style of articles recently published in AAR. The journal's Author Guidelines can be found [HERE](#).

The approximate length of the manuscripts should be around 8,000 words. Following initial screening, manuscripts will be subjected to a standard peer-review evaluation, in accordance with review practices commonly followed by the journal AAR. For further information please contact Yves Gendron at yves.gendron@fsa.ulaval.ca.

[Back to Contents Page](#)



Volume 32, No 2
Winter 2009

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Committee Volunteers

If you are interested in serving on a committee of the Auditing Section for the 2009/2010 academic year, please send an email to Urton Anderson at urton.anderson@mcombs.utexas.edu indicating your specific interests. Information about the Section's committee can be found at <http://aaahq.org/audit/committee.htm>.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

Volume 32, No 2
Winter 2009

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Auditing Section Members Who Are Also AICPA Members

The Examination Division of the AICPA has two opportunities for Auditing Section members who are also AICPA members. The first is to assist in developing simulations that will be used on future CPA examinations. If you are interested or would like more information, please contact Joe Maslott at jmaslott@aicpa.org. The second is to volunteer to serve on the Auditing and Attestation Subcommittee. This subcommittee reviews all questions (multiple choice and simulations) appearing on Audit section the CPA examination. If you are interested or would like more information, please contact Adell Battle at abattle@aicpa.org.

[Back to Contents Page](#)