



THE
AUDITOR'S
REPORT

Volume 27, No.1, Fall 2003

AUDITING SECTION/AMERICAN ACCOUNTING ASSOCIATION

REPORT OF THE PRESIDENT

I thank the members of the Auditing Section for giving me the opportunity to serve as President during this academic year. It is truly an honor to hold this office, following in the footsteps of so many exemplary individuals. Managing the Auditing Section is a team effort, and each Executive Committee builds on the successes of its predecessors. We all owe a debt of gratitude to Joe Carcello (University of Tennessee), the outgoing President, for his able and enthusiastic leadership during the past year. I also want to thank the outgoing members of the Executive Committee for their excellent service. Mike Bamber (University of Georgia), Past President, provided able leadership during his term as President, and much-needed guidance and advice during the past year. Rick Tubbs (University of Iowa) did a superlative job as Treasurer, keeping control over funds and tracking the Section's financial status. Andy Bailey (University of Illinois) was a superb Historian, maintaining and improving the Section's Bylaws and Operating Manual, and providing the Executive Committee with excellent advice based on his years of service to the Section and the AAA. I also welcome the new members of the Executive Committee: Linda McDaniel (University of Kentucky), Vice President—Academic; Scott Showalter (KPMG LLP), Vice President—Practice (who took office in midyear); Jeff Cohen (Boston College), Treasurer; and Karen Pincus (University of Arkansas), Historian. Continuing members are Joe Carcello, who moves from President to Past President, and Bill Dilla (Iowa State University), who continues as Secretary.

Before discussing past and future activities of the Section, as is traditional in the Presidents' Reports, I want to take this opportunity to urge you to increase your attendance at academic meetings, despite the difficulty in finding the time and the funding to do so! More and more, our academic meetings serve a dual role. While the research communication function remains important, there is a growing awareness that these meetings are vital vehicles for faculty to improve their teaching. The accounting/auditing world that we used to know is changing rapidly—so rapidly, in fact, that it is very difficult to keep up. If we want to present our students with the most current information available, we must have a convenient source for that information. My experience



Jean C. Bedard

over the past two years is that the insights I have gained from academic meetings have been invaluable for my teaching, both in financial accounting and in auditing. These insights have come from auditing professionals and regulators serving as invited speakers or panelists at meetings, and from interaction with my colleagues at other universities about their experiences. I could not have gained these insights from the financial press, as the press does not focus on the issues relevant to professional accounting practice, and certainly not at the level of detail we need for teaching. In the AAA Annual Meeting and Midyear Conferences, the Auditing Section takes great care to provide multiple opportunities for faculty to learn about the very latest trends, and how the profession is responding to them. We seek a balanced perspective, with the ultimate goal of improving the financial markets and society as a

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SPRING 2004 ISSUE DEADLINE

The deadline for material to be included in the Spring 2004 issue of *The Auditor's Report* is March 15, 2004. The preferred format is a Word file attached to an email message. We also are open to any proposals for materials that anyone would like to submit. Please send all material and proposals to the Editor at the address below by March 15, 2004 to ensure timely publication of the issue:

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The address of the Auditing Section's Home Page on the World Wide Web is:
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President's Report

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whole by promoting effective and efficient auditing. Thus, you will come away from our meetings with a wealth of knowledge that will be of immediate use in the classroom.

An example of a successful meeting is the AAA Annual Meeting in Honolulu. For instance, our luncheon speaker was Greg Scates, Associate Chief Auditor of the Office of Professional Standards at the PCAOB. Greg spoke on the Board's current activities and future plans, including its plans for addressing auditing standards. (For a more complete report on Greg's speech, see the article later in this issue.) Also, the Auditing Section sponsored events addressing auditing technology, including a CPE session on continuous auditing, and a panel discussion on XBRL. The Section also was well represented in research paper sessions. There were 34 auditing papers presented at concurrent sessions, 12 in the research forum, and one panel session. In his President's Report last Fall, Joe called on members of the Section to submit their work to the Honolulu meeting, as the competition for session slots was likely to be heavy. I am pleased to report that our members responded: we had 103 submissions of auditing papers, as opposed to 77 for the 2002 Annual Meeting. Of the 103 submissions, 57 were archival, 30 were experimental, 6 analytical, and 9 presented in-depth discussion of an auditing issue. This success in gaining submissions resulted in an increased workload for those individuals in charge of selecting papers for the meeting, and for the many volunteers who reviewed the submitted papers, and they all deserve a special acknowledgment. Our thanks go out to Bryan Church (Georgia Institute of Technology) and Mike Ettredge (University of Kansas), Director and Assistant Director of the 2003 Annual Meeting Committee, and to Mark Zimelman (Brigham Young University), Director of CPE Programs.

Next, I want to look to the future. Traditionally, each incoming President sets one or more goals for the Presidential term. I hope to focus on two basic efforts in the upcoming year and, in addition, I will continue several initiatives begun under Joe's Presidency. My first goal is to work with our standing committees to provide guidance to Auditing Section members on how the academic auditing community can respond to the current challenges facing the profession, through our research, teaching, and service functions. This effort should primarily involve the Education, Research, and Communications Committees. My second goal is to work with the Public Company Accounting Oversight Board to develop formal and informal linkages between the PCAOB, the Auditing Section, and the American Accounting Association, with the goal of enhancing the process and outcome of policy making related to the auditing function. Other members of the Executive Committee, particularly Joe Carcello, are helping us achieve this goal. Other committees likely to be involved include: Midyear Meeting, Annual Meeting, Auditing Standards, and Membership and Regional Coordinators.

In addition to these initiatives, the Executive Committee also will continue several activities begun last year, which were envisioned by Joe as being long-term in nature. I enthusiastically supported these activities, and we jointly decided that they should be considered multiple-year goals. Significant progress already



Past President Joseph V. Carcello passes the gavel to incoming President Jean C. Bedard at the AAA Annual Meeting in Honolulu.

has been made on these efforts during Joe's term, as he described in his Summer 2003 President's Report. I will report further progress to you in the upcoming issues of *The Auditor's Report*.

I also am pleased to announce that, at our meeting in Honolulu, the Executive Committee approved a conference celebrating the 25th Anniversary of *Auditing: A Journal of Practice & Theory*. This conference will be held the day before the 2005 Midyear Conference, and will include a celebratory dinner. There will be a separate submission process for papers to be presented at the 25th Anniversary Conference, and selected papers will be published in a supplemental issue of *AJPT*. Further details will be announced shortly. At this point, we envision having a single registration fee for both the 25th Anniversary and Midyear Conferences, both located in New Orleans, Louisiana. We currently are negotiating with hotels, seeking a high-quality venue at a reasonable price, within walking distance of the wonderful restaurants, music, and historical sites that New Orleans has to offer.

In closing, I extend a warm invitation to attend the Auditing Section's 10th annual Midyear Conference (MYC), next January 15–17 in Clearwater, Florida. Steve Glover and Doug Prawitt (both at Brigham Young University), Co-Chairs of the 2004 Midyear Conference Program Committee, and the meeting planning committee are working on the program, which promises to be outstanding. The MYC will include two plenary sessions, both of which will be very helpful in informing our teaching and research. In the Friday morning plenary session, Douglas Carmichael, Chief Auditor and Director of Professional Standards of the Public Company Accounting Oversight Board, will provide his insights on the Board's operations. The Saturday morning plenary session features a panel that will provide an update on the current state of auditing standards. We have received over 80 paper submissions,

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representing a broad variety of topics and research methods. In addition to concurrent sessions focusing on research and teaching, the MYC also will have several concurrent panels, including one on corporate governance sponsored by KPMG, another by personnel from the U.S. General Accounting Office on their studies required by Congress in the Sarbanes-Oxley Act, as well as panels sponsored by Section committees (e.g., the Research and Education Committees). Current plans for CPE focus on auditors' activities related to management's assertions on internal control required by Sarbanes-Oxley Section 404, including implications for practice, education, and research. The location for our 2004 conference, the Hilton Clearwater Beach Resort in Clearwater, Florida is outstanding! Situated 20 miles from the Tampa International Airport, the resort is located on an island overlooking the Gulf of Mexico. The Hilton Clearwater Beach Resort sits on 10 acres along a beautiful, private white sandy beach. An entertainment pier is just a short walk from the hotel. The island has 30 or more restaurants as well as many shops and attractions. Make your

hotel reservations early because a block of rooms has been reserved at a favorable price.

The day before the MYC, the Auditing Section and KPMG LLP will sponsor our annual Doctoral Consortium. Ron King (Washington University), Chair of the Doctoral Consortium Committee, is developing a program designed to benefit any doctoral student, regardless of research interests and/or stage in the program. Because of the generous sponsorship of the KPMG Foundation, the Consortium is free to doctoral students, including one free hotel night and meals on the day of the Consortium. To encourage doctoral students to stay for the MYC, their registration fee for the balance of the meeting is only \$25. Please encourage your doctoral students to attend the Consortium, and the rest of the meeting, as this is a superb opportunity both for learning and for making contacts that they will value throughout their careers.

Thank you again for giving me the opportunity to serve as President this year. Please feel free to contact me or other Section officers and committee chairs if you have comments or questions regarding Auditing Section activities. Our contact information is on the Section's website.

ASB Update as of May 31, 2003

*William F. Messier, Jr., Georgia State University
Academic Member of the Auditing Standards Board*

In this update, I report on what the ASB has been doing since the PCAOB assumed authority for establishing auditing standards for public companies and indicate what the future might hold for the ASB.

Proposals Submitted to the PCAOB

Since my last report, the ASB finalized two projects related to Sarbanes-Oxley. The first project involved the March 18, 2003 Exposure Draft on reporting on internal control under Section 404. The second project involved the April 1, 2003 Sarbanes-Oxley Omnibus Exposure Draft that contained guidance for concurring partner activities, documentation, and communications with audit committees. The ASB received 27 comment letters on the internal control exposure draft and 15 comment letters on the omnibus exposure draft. The Internal Control and Omnibus task forces and the ASB revised the exposure drafts to reflect the comments received and submitted them to the PCAOB for its consideration. The documents submitted to the PCAOB can be found at the AICPA's website (www.aicpa.org).

Risk Assessments Project

The ASB continues to be involved in the Joint Risk Assessment Task Force. The International Auditing and Assurance Standards Board (IAASB) and the ASB issued their exposure drafts in October 2002 after receiving numerous comment letters. The IAASB will consider issuing the risk assessment standards at its October meeting in Tokyo. After IAASB approval, the ASB will consider adopting these standards for non-public companies.

The Future of the ASB

I have been asked on numerous occasions about the role of the ASB now that the PCAOB is authorized to issue auditing standards for public companies. The ASB will be reformed—there will be more members representing a broader set of constituents as well as a new mission. The ASB's objectives will be the following:

- Act as the profession's voice on auditing standards as they relate to audits of non-public entities, and when commenting on the proposed standards of other auditing standard setters including the GAO, IAASB, and PCAOB.
- Serve as the profession's "think tank" on the strategic direction of auditing standards.
- Assist in rebuilding the public's trust in the CPA providing audit reports.
- Commission research that will continuously improve the auditing profession.
- Address the needs of users of non-public entity financial statements in a timely manner.
- Promulgate auditing, attestation, and quality control standards related to engagements for non-public entities.
- Issue clear authoritative guidance for auditors of non-public entities.
- Work with AICPA staff to develop nonauthoritative guidance for practitioners serving public, non-public, governmental, non-profit, and for-profit entities.

AUDITING SECTION

Officer Nominations for 2004–2005

Nominees for Vice President–Academic (President-Elect)



Mark S. Beasley

Mark S. Beasley is an Associate Professor in the Department of Accounting at North Carolina State University. He received a B.S. in accounting from Auburn University and a Ph.D. from Michigan State University. Before entering the academic profession, Mark was an Audit Manager with the Nashville, TN office of Ernst & Young and a Technical Manager in the Audit and Attest Division of the American Institute of Certified Public Accountants in New York City.

Mark teaches auditing courses in the undergraduate and master's programs, where he is a member of NC State's Academy of Outstanding Teachers, the College of Management recipient of the Board of Governor's Teaching Award, and a member of NC State's Academy of Outstanding Faculty Engaged in Extension. He has actively conducted research related to financial statement fraud, corporate governance, and enterprise risk management. His dissertation, which examined the relation between board of director characteristics and instances of financial statement fraud, was the recipient of the American Accounting Association's Competitive Manuscript Award and the Auditing Section's Notable Contributions Award. He co-authored a study published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) titled, *Fraudulent Financial Reporting: 1987–1997, An Analysis of U.S. Public Companies*, and a study issued by the AICPA titled, *Fraud-Related SEC Enforcement Actions Against Auditors: 1987–1997*. His research has been cited numerous times in national publications and has been published in numerous leading academic journals. He is the co-author of two textbooks, a casebook, and an instructional novella.

He currently serves on several editorial boards and is a member of the COSO's Enterprise Risk Management Advisory Council and the AICPA's Antifraud Programs and Controls Task Force. He recently completed service on the Auditing Standards Board's Fraud Standard (SAS No. 99) Task Force and is the past Treasurer of the Auditing Section of the American Accounting Association.

Ken Trotman is Scientia Professor, School of Accounting, University of New South Wales, Australia. He has held visiting appointments at Boston College, Cornell University, California State Poly U-Pomona, Nanyang Technological University, and the University of Michigan. Ken has a long association with the American Accounting Association, having served several terms on the editorial boards of both *The Accounting Review*



Ken Trotman

and *Auditing: A Journal of Practice & Theory (AJPT)*. He was associate editor of the *AJPT* from 2000 to 2002, and Director of Research for the Auditing Section of the AAA from 1998 to 2000. Ken received the 2001 Outstanding Auditing Educator Award from the AAA Auditing Section. His previous administration experience includes eight years as Head of School at UNSW and five years on the executive committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ), including a year as President. Ken was awarded life membership of AFAANZ in 2001.

Nominee for Vice President–Practice



D. Scott Showalter

D. Scott Showalter, Partner, KPMG. Based in New Jersey, Scott is the Industry Sector Leader for KPMG's public sector practice. From 1998 to 2002, Scott served as the national managing partner in charge of the Firm's Assurance & Advisory Services Center (AASC), KPMG's global center of excellence for developing and deploying assurance services, technology tools, and methodologies. With more than 28 years of experience with

KPMG, he has served as a technical advisor and lead partner to many of KPMG's largest and most complex public sector clients, including several states and major cities.

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Officer Nominees for 2004–2005

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Scott has held numerous Firm leadership positions, including national industry director of KPMG’s state and local government practice, national partner in charge of assurance-based advisory services for public services, and national risk management partner for public services. He is considered a national authority on public sector financial management and performance measurement. Scott is the co-editor of Warren Gorham and Lamont’s monthly newsletter, *Government Accounting and Auditing Update*. In 2001, he was recognized as one of the “Top 100 Most Influential People in Accounting” by *Accounting Today* magazine.

Scott is a certified public accountant in New Jersey, Illinois, Indiana, Missouri, and Wisconsin, and a certified government financial manager. He has been a course instructor for the American Institute of Certified Public Accountants (AICPA) and former member of the AICPA’s Governmental Accounting and Auditing Committee. In addition, Scott currently serves as the vice-president for practice of the Auditing Section, Government Finance Officers Association, and Association of School Business Officials. Scott is a visiting instructor at the School of Commerce and Business Administration at the University of Illinois and the Kelley School of Business at Indiana University.

Nominees for Secretary



Brian Ballou

Brian Ballou is an associate professor of accounting at Miami University in Oxford, Ohio, where he teaches undergraduate and graduate auditing and risk management courses. This fall, he is visiting the University of Illinois in Champaign–Urbana, where he is teaching an undergraduate course on control of accounting information. Prior to joining Miami University in 2003, Brian was an associate professor at Auburn University, where he was on the faculty

from 1997 until 2003. He earned his Ph.D. from Michigan State University in 1996. Brian currently is past chair of the Auditing Section’s Auditing Standards Committee, on which he served as chair from 2002–2003 (and worked extensively with Kay Tatum). Brian’s research interests involve decision-making aspects of strategic-systems auditing, business measurement, negotiation, and risk management.

During his tenure at Auburn, Brian received four college/department teaching awards related to his graduate-level courses on risk management and strategic-systems auditing. His publications have been in various academic and professional publications. Prior to obtaining his Ph.D., Brian’s work experience included a year-long postgraduate internship with the FASB (Norwalk, CT), two years with Ernst & Young (Indianapolis), and one year with LEXIS/NEXIS (Dayton, OH).

Kay W. Tatum is an associate professor of accounting at the University of Miami in Coral Gables, Florida, where she teaches undergraduate and graduate auditing courses. She joined the University of Miami’s accounting department in 1986 after earning her Ph.D. at Texas Tech University. She is a two-time recipient of the University’s School of Business Administration’s Excellence in Teaching Award. In 2002, she received the University’s Excellence in Teaching Award.



Kay W. Tatum

She was a member of the AAA’s Auditing Standards Committee from 1999–2003, having served as chairperson from 2000–2002. She was a member of the AICPA’s Task Force that developed SAS No. 84, *Communications between Predecessor and Successor Auditors*, and a member of the Joint Working Group, a committee of practitioners, standard setters, and academics from the U.S., Canada, and the U.K. that studied the audit methodologies of the large accounting firms and explored how they are applying the audit risk model. She is a co-author of *Developments in the Audit Methodologies of Large Accounting Firms*, a monograph written by the academic members of the Joint Working Group. Kay is a member of the AICPA’s International Auditing Standards Subcommittee. She is a contributing author to the book *Audit Committees: A Guide for Directors, Management, and Consultants*, which is published by Aspen Law & Business. She was a member of the IIA’s Research on Internal Audit team, which developed the monograph entitled *Research Opportunities in Internal Auditing*.

Make Your Work More Visible— So It Can Have an Impact

Dana R. Hermanson

Professor of Accounting

Co-Founder – Corporate Governance Center, Kennesaw State University
Research Fellow – Corporate Governance Center at the University of Tennessee

Paul D. Lapidus

Director – Corporate Governance Center, Kennesaw State University
Research Fellow – Corporate Governance Center at the University of Tennessee

Over the years, we have heard a common refrain from academics, “Outside of a few other professors and Ph.D. students, I’m not sure anybody really sees my work. I wish my research could have a greater impact in the business community.”

The Auditing Section’s Research Committee asked us to provide some thoughts on this issue—specifically, what can you do to make your work more visible, to give it a greater potential for impact in the business community? First, we will share our recent experience of issuing corporate governance and financial reporting principles through our university’s Corporate Governance Center. Then, we will offer some practical tips for making your work more visible.

The 21st Century Governance and Financial Reporting Principles

In March of 2002, Enron was still unfolding, and several groups had offered their thoughts on key reforms needed, best practices, etc. We decided that it made sense for the Corporate Governance Center to issue a statement reflecting our views on key governance issues (based on our experience in the field, our research, etc.).

To maximize the quality and credibility of our statement, we asked four of our Center’s Fellows (Mark Beasley (North Carolina State University), Joe Carcello (University of Tennessee), Todd DeZoort (University of Alabama), and Terry Neal (University of Tennessee) to participate in this effort. Through an iterative process, we developed ten governance principles and seven financial reporting principles that we believe are appropriate for U.S. public companies (see <http://ksumail.kennesaw.edu/~dhermans/principl.htm>).

The launch of our principles included the following steps:

- A press release issued on Ascribe, one of many services that distribute information to the press,
- Supporting local efforts by the public relations experts at our respective universities,
- Emails to almost all of the reporters with whom we had interacted on similar stories,
- Emails to key individuals and organizations within the governance, accounting, and academic communities, and

- Placing the principles and press release online at the Center’s website.

We had no idea what type of reception we would receive, as this was the first “position paper” we had issued from the Center. In fact, we knew that it was possible that our principles might be completely ignored by the press.

Initial coverage of the principles included The Associated Press, the AICPA website, The Corporate Library website, Corp.gov.net, *Public Sector News*, the *Knoxville News-Sentinel*, the Corporate Board Member website, and several local papers and radio stations. We were encouraged by this degree of coverage, but by far the most extensive coverage came from a somewhat unexpected source, the Institute of Internal Auditors.

Just after the issuance of our principles (but unknown to us), the IIA was scheduled to make a presentation to the New York Stock Exchange as the NYSE was considering changes to its listing requirements. In its submission to the NYSE, the IIA endorsed our ten governance principles and reproduced the entire text. The IIA stated, “While many models could serve as the starting point for the development of sound corporate governance principles, the 21st Century Governance Principles for U.S. Public Companies, recently issued by the Corporate Governance Center at Kennesaw State University in Kennesaw, Georgia, appear to the Institute to be particularly appropriate. The Institute believes these ten principles provide a sound model for effective governance because, like the Corporate Governance Center, the IIA believes that sound governance is dependent on the synergy generated among the four components of the governance system: the board, management, internal auditors, and external auditors” (see http://www.theiia.org/iaa/index.cfm?doc_id=3587).

The IIA later distributed its NYSE statement (including our ten governance principles) to the U.S. Securities and Exchange Commission, American Stock Exchange, National Association of Securities Dealers, National Association of Corporate Directors, Financial Executives International, all members of Congress, and appropriate White House staff. The governance principles also have been included in a number of IIA publications.

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Make Your Work More Visible

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In short, the IIA's efforts resulted in much wider distribution of our governance principles than we ever imagined, and the IIA's endorsement surely served to enhance the credibility of our message. Had we not emailed the principles to the IIA President, none of this would have happened. While we cannot know exactly what impact our governance principles might have had on the deliberations of the NYSE and others, we are encouraged that many of the governance principles we advocated were included in the recommendations issued by the NYSE in 2002, including the call for all listed companies to have an internal audit function.

Even now, we continue to encounter uses and citations of the governance principles. For example, an article discussing the governance and financial reporting principles is cited in a corporate governance program at Harvard, and the principles will be included in a forthcoming Management textbook. We have presented the principles to numerous U.S. and international business groups, and have used the principles in our classes.

Ironically, we probably spent more time debating the financial reporting principles, yet they have received very little attention, demonstrating that you can never be sure how your work will be received.

Practical Tips for Making Your Work More Visible

Our experience with the principles makes it clear that you cannot rely on only one or two methods to distribute your work. Payoffs may come from unexpected places.

Here are five tips for making your work more visible:

1. Write for multiple audiences – If you want your work to be seen by the business community, you have to take it to them. In other words, you must write in the publications that they read. In addition to submitting papers to top academic journals, target some practitioner publications and the business press. For example, we have had excellent feedback from quotes and letters to the editor in *The Wall Street Journal* and *Business Week*. Several years ago, the first author had a letter in *The Wall Street Journal* criticizing Disney's board. Soon after, he received a handwritten note from Disney CEO Michael Eisner. Clearly, many more people read a letter or quote in a major business publication than will ever read an academic article. If your letter or quote contains the substance of your major research findings, then you have essentially taken your research to the business community. You may get calls from people asking to see the full study or seeking your advice on related issues.

2. Mail (email) your work to key people – When you have an article or working paper that directly addresses an issue facing a

regulator or other organization, send them your paper or at least an abstract of the paper. As long as you don't get carried away, this is a low-cost way to share your work with the people who can act on your findings. We have found that many people are starved for good information, and your research may give them some of what they need. The 1999 release of the COSO sponsored study, *Fraudulent Financial Reporting: 1987–1997* (Beasley, Carcello, and Hermanson), was done largely through direct mailings to key accounting and governance participants, as well as key members of the media. We believe that this direct mailing was essential to the attention this study received from regulators.

3. Get to know the media – Virtually every newspaper and business publication in the country is writing about accounting and auditing issues. Get to know the business reporters in your market. You can start with an email or phone call to introduce yourself; alternatively, your institution's PR experts may have valuable contacts that you can leverage. Once you are quoted in a story, reporters from other publications will seek you out as an expert. Also, using the Profnet system (<http://www2.profnet.com/>) can lead to numerous contacts with the media. Finally, many local radio stations (or even public TV stations) have business shows or segments. Introduce yourself to the host or producer, and you may find that your work makes it to the radio or TV.

4. Share your work with your M.B.A. and E.M.B.A. students – If your institution has graduate programs, recognize that your M.B.A. and E.M.B.A. students may soon be major players in the local business community. Share your work with them in the classroom. In addition to helping you to integrate your teaching and research, you also may find that your current and former students can use some of your insights.

5. Speak to groups – Finally, get out and speak to business groups. Almost any presentation to a business group is an appropriate forum for sharing relevant research. Such presentations can lead to other opportunities, possibly including sponsorship of future studies, access to data, or access to research participants.

The basic theme of this approach is, "Do excellent work that adds value to the academy and industry, collaborate whenever it will improve quality, and distribute your work in ways that can improve business practices." Obviously, research that isn't excellent or doesn't add value will not have an impact on practice. More importantly, excellent work that nobody hears about also will not affect practice.

We hope that this discussion will prompt some ideas for how to maximize the visibility and potential impact of your work.

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Make Your Work More Visible

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EXHIBIT

21st Century Governance and Financial Reporting Principles

Corporate Governance Center — Kennesaw State University — Kennesaw, GA

[Originally issued March 26, 2002]

The Enron bankruptcy and widespread financial reporting problems call the governance and financial reporting practices of U.S. public companies into question. We believe that the attached principles represent the foundation of corporate governance and financial reporting and should be at the core of current and future reforms. Accordingly, we offer these 17 principles to advance the current dialogue and to promote investor, stakeholder, and financial statement user interests.

Paul D. Lapidés, Director ^a
Kennesaw State University

Mark S. Beasley, Fellow ^{b, c}
North Carolina State University

F. Todd DeZoort, Fellow
The University of Alabama

Dana R. Hermanson, Co-Founder ^{a, b}
Kennesaw State University

Joseph V. Carcello, Fellow ^b
University of Tennessee

Terry L. Neal, Fellow
University of Tennessee

^a Member of the *NACD Blue Ribbon Commission on Audit Committees*.

^b Co-author of *Fraudulent Financial Reporting: 1987–1997*, copyright COSO, 1999.

^c Member of the Auditing Standards Board's *Fraud Standard Steering Task Force*.

21st Century Governance Principles for U.S. Public Companies

- 1. Interaction** – Sound governance requires effective interaction among the board, management, the external auditor, and the internal auditor.
- 2. Board Purpose** – The board of directors should understand that its purpose is to protect the interests of the corporation's stockholders, while considering the interests of other stakeholders (e.g., creditors, employees, etc.).
- 3. Board Responsibilities** – The board's major areas of responsibility should be monitoring the CEO, overseeing the corporation's strategy, and monitoring risks and the corporation's control system. Directors should employ healthy skepticism in meeting these responsibilities.
- 4. Independence** – The major stock exchanges should define an "independent" director as one who has no professional or personal ties (either current or former) to the corporation or its management other than service as a director. The vast majority of the directors should be independent in both fact and appearance so as to promote arm's-length oversight.
- 5. Expertise** – The directors should possess relevant industry, company, functional area, and governance expertise. The directors should reflect a mix of backgrounds and perspectives. All directors should receive detailed orientation and continuing education to assure they achieve and maintain the necessary level of expertise.
- 6. Meetings and Information** – The board should meet frequently for extended periods of time and should have access to the information and personnel it needs to perform its duties.
- 7. Leadership** – The roles of Board Chair and CEO should be separate.
- 8. Disclosure** – Proxy statements and other board communications should reflect board activities and transactions (e.g., insider trades) in a transparent and timely manner.
- 9. Committees** – The nominating, compensation, and audit committees of the board should be composed only of independent directors.
- 10. Internal Audit** – All public companies should maintain an effective, full-time internal audit function that reports directly to the audit committee.

Make Your Work More Visible

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21st Century *Financial Reporting Principles* for U.S. Public Companies

- 1. Reporting Model** – The current GAAP financial reporting model is becoming increasingly less appropriate for U.S. public companies. The industrial-age model currently used should be replaced or enhanced so that tangible and intangible resources, risks, and performance of information-age companies can be effectively and efficiently communicated to financial statement users. The new model should be developed and implemented as soon as possible.
- 2. Philosophy and Culture** – Financial statements and supporting disclosures should reflect economic substance and should be prepared with the goal of maximum informativeness and transparency. A legalistic view of accounting and auditing (e.g., “Can we get away with recording it this way?”) is not appropriate. Management integrity and a strong control environment are critical to reliable financial reporting.
- 3. Audit Committees** – The audit committee of the board of directors should be composed of independent directors with financial, auditing, company, and industry expertise. These members must have the will, authority, and resources to provide diligent oversight of the financial reporting process. The board should consider the risks of audit committee member stock/stock option holdings and should set audit committee member compensation at an appropriate level given the expanded duties and risks faced by audit committee members. The audit committee should select the external auditor, evaluate external and internal auditor performance, and approve the audit fee.
- 4. Fraud** – Corporate management should face strict criminal penalties in fraudulent financial reporting cases. The Securities and Exchange Commission should be given the resources it needs to effectively combat financial statement fraud. The board, management, and auditors all should perform fraud risk assessments.
- 5. Audit Firms** – Audit firms should focus primarily on providing high-quality audit and assurance services and should perform no consulting for audit clients. Audit firm personnel should be selected, evaluated, compensated, and promoted primarily based on technical competence, not on their ability to generate new business. Audit fees should reflect engagements’ scope of work and risk.
- 6. External Auditing Profession** – Auditors should view public accounting as a noble profession focused on the public interest, not as a competitive business. The profession should carefully consider expanding audit reports beyond the current “clean” versus modified dichotomy so as to enhance communication to financial report users.
- 7. Analysts** – Analysts should not be compensated (directly or indirectly) based on the investment banking activities of their firms. Analysts should not hold stock in the companies they follow, and they should disclose any business relationships between the companies they follow and their firms.

Call for Auditing CPE Proposals 2004 AAA Annual Meeting

The Auditing Section plans to sponsor one or more CPE sessions at the 2004 Annual Meeting of the American Accounting Association. The Section’s CPE committee is looking for individuals or groups who are interested in presenting sessions at this meeting.

The committee also is soliciting ideas for possible auditing CPE topics and speakers, either for the 2004 Annual Meeting, the 2005 Midyear Meeting, or for future meetings. Please respond by December 14, 2003. Early responses will provide sufficient time to fully develop auditing CPE proposals for submission by the AAA’s deadline, which is usually in early January. To submit proposals or ideas, please contact:

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HAVE YOU SEEN...?

James Lloyd Bierstaker, University of Massachusetts Boston,
John T. Reisch, East Carolina University, and Dennis M. O'Reilly, Xavier University

“Why Good Accountants Do Bad Audits,” by M. H. Bazerman, G. Lowenstein, and D. A. Moore, *Harvard Business Review* (November 2002): 97–102.

In one of a series of papers addressing auditor independence, the authors suggest that accountants and auditors are vulnerable to unconscious bias from three sources. First, there is ambiguity in accounting standards. Second, auditors have incentives to want to please clients (i.e., attachment). Third, auditors assess client accounting judgments that have already been made (approval). In addition, three aspects of human nature (familiarity, discounting, and escalation) may amplify these biases.

“Will You Detect Fraud If You Think You Can?” by C. A. Strand, T. S. Nowlin, and B. Wier, *Internal Auditing* (Vol. 18, No. 4, July/August 2003): 34–38.

The authors conducted an experiment with 283 internal auditors and 249 accounting majors to examine the relationship between self-efficacy and detection of fraud. The results suggest that internal auditors who thought they could detect fraud did a better job identifying misappropriation of assets than those who did not, but there was no significant correlation between self-efficacy and fraud detection for students. Fraud training and exposure to articles about fraud increased the self-efficacy of both groups, but experience was not related to self-efficacy.

“How Are Earnings Managed?” by M. W. Nelson, J. A. Elliott, and R. L. Tarpley, *Accounting Horizons* (Supplement 2003): 17–35.

The authors use a survey to gather data on 515 earnings-management attempts from 253 partners and managers. Many attempts involved revenue recognition, reserves and accruals, and fixed asset impairment and amortization. While consistent with the findings of prior research, this study focuses on attempted earnings management and provides detailed descriptions of specific instances of earnings management.

“Do Nonaudit Services Compromise Auditor Independence? Further Evidence,” by H. Ashbaugh, R. LaFond, and B. W. Mayhew, *The Accounting Review* (July 2003): 611–639.

Based on a sample of 3,170 firms, the authors find no evidence to support the claim that firms purchasing nonaudit services manage earnings to a greater extent than other firms. These results stand in contrast to Frankel et al. (2002), who suggest that auditor independence is compromised when clients pay high nonaudit fees relative to total fees. The authors suggest that the explanation for these conflicting results is that they control for firm performance whereas Frankel et al. (2002) do not.

“Evidence on the Joint Determination of Audit and Non-Audit Fees,” by S. Whisenant, S. Sankaraguruswamy, and

K. Raghunandan, *Journal of Accounting Research* (Vol. 41, No. 4, 2003): 721–744.

A number of prior studies find a significant association between audit and non-audit fees using single-equation audit fee models, suggesting that knowledge spillovers occur from one service to the other. In this study, the authors present and test a system of fees that utilizes the simultaneous determination of audit and non-audit fees. Using fee data from preliminary and definitive proxy statements filed between January and August 2001, the authors first confirm the association between audit and non-audit services using a single-equation fee model. However, their results differ when they use simultaneous-equation estimations of audit fees. They find that audit fees do not directly influence non-audit fees; instead, audit and non-audit fees are related indirectly through parameters that determine each fee.

“Whistle-Blowing to Internal Auditors,” by W. J. Read and D. V. Rama, *Managerial Auditing Journal* (Vol. 18, No. 4, 2003): 354–362.

Using survey responses from 129 chief internal auditors, the authors examine the receipt of whistle-blowing complaints by internal auditors. The results indicate that within the two years prior to completing the survey, 71 percent of respondents received whistle-blowing complaints; of those, 65 percent were found true upon investigation. The study also finds a positive association between the receipt of whistle-blowing complaints and both the role of internal auditing in verifying compliance with the company's code of conduct and the organizational status of the chief internal auditor.

“Auditor Conservatism, Asymmetric Monitoring and Earnings Management,” by J. Kim, R. Chung, and M. Firth, *Contemporary Accounting Research* (Vol. 20, No. 2, 2003): 323–360.

Prior research provided evidence that Big 6 auditors were more effective than non-Big 6 auditors at constraining management's opportunistic reporting behavior. The authors revisit this issue and examine whether the convergence or divergence of management's reporting incentives and auditors' litigation avoidance incentives impact auditors' effectiveness. The authors argue that Big 6 auditors have incentives to be more conservative than non-Big 6 auditors in determining reported earnings because of greater potential litigation costs. Therefore, Big 6 auditors may not be as motivated as non-Big 6 auditors to deter or constrain management's income-decreasing accrual choices. The authors provide evidence that Big 6 auditors are less (more) effective than non Big-6 auditors at constraining earnings management where management has an incentive to use income-decreasing (increasing) accruals.

(continued on page 11)

Have You Seen...?

(continued from page 10)

“Audit Committee Support for Auditors: The Effects of Materiality Justification and Accounting Precision,” by F. T. DeZoort, D. R. Hermanson, and R. W. Houston, *Journal of Accounting and Public Policy* (Vol. 22, 2003): 175–199.

The authors examine how accounting and auditing issue characteristics affect audit committee members’ (ACMs) judgments in an auditor-management disagreement. Using data collected from 55 ACMs of small to mid-sized public companies, the authors conducted a 2×2 between-subjects design that included explanatory variables for materiality justification (i.e., the auditors provide either a quantitative-only explanation of materiality or both a quantitative and qualitative explanation of materiality) and accounting precision (i.e., precise or imprecise accounting issue in dispute). The model’s primary dependent variable is ACM support for either management or the auditor, coded on a continuous scale. The findings indicate that ACMs provide greater support for the auditor when the auditor’s materiality justification included both a quantitative and qualitative explanation of materiality and when the accounting issue was subject to precise measurement. The authors also find that more experienced ACMs and those who are CPAs were more supportive of the auditor.

“Do Expert Informational Intermediaries Add Value? Evidence from Auditors in Microcap IPOs,” by J. Weber and M. Willenborg, *Journal of Accounting Research* (Vol. 41, No. 4, 2003): 681–720.

The authors examine the informativeness of audit reports contained in prospectuses of firms engaged in small, non-venture-backed IPOs. This segment of the IPO market provides a unique setting in that these IPOs have the poorest long-run performance and the audit firm may be the only financial expert associated with the IPO (e.g., there are no prestigious underwriters or venture capitalists involved in the offering). The results indicate that the pre-IPO opinions of larger (Big 6) auditors are more predictive of future negative delistings. However, the opinions of the national-tiered firms are comparatively predictive, but only after the authors accommodate the selectivity-based differences in clients that hire national audit firms. The findings also suggest that the presence of a pre-IPO going-concern opinion is more strongly associated with first-year stock returns for firms with larger auditors, and that larger auditors are more likely to give such opinions to distressed clients.

“Independence in Appearance and in Fact: An Experimental Investigation,” by N. Dopuch, R. King, and R. Schwartz, *Contemporary Accounting Research* (Vol. 20, No. 1, 2003): 79–114.

The authors use 2×3 experimental markets design to investigate the effect of the SEC’s mandated disclosures concerning the amount of non-audit fees paid to the company’s auditors. The authors manipulated independence in fact (biased reports vs. non-biased reports) and independence in appearance (no information provided to investors; investors informed that auditor provides non-audit services and that the auditor has a high likelihood of issuing biased reports; or, investors informed that auditor does not provide non-audit services and that the auditor

has a high likelihood of issuing unbiased reports). The study found that disclosures of non-audit services reduced the efficiency of the markets in cases where independence in fact and appearance were incongruent.

“Audit Committee Independence and Disclosure: Choice for Financially Distressed Firms,” by J. Carcello and T. Neal, *Corporate Governance: An International Review* (Vol. 11, No. 4, 2003): 289–299.

The authors examine whether a relationship exists between the percentage of independent (non-affiliated) audit committee members and distressed firms’ disclosure choices. The authors argue that independent members will be more likely to insist that management address financial distress issues in a footnote as well as to encourage more conservative wording in the disclosure than will client-affiliated audit committee members. Using a dichotomous measure of disclosure choice, the authors demonstrate a positive relationship between the percentage of affiliated audit committee members and the optimism of management’s disclosure choice.

“Attitudes toward Dysfunctional Audit Behavior: The Effects of Locus of Control, Organizational Commitment, and Position,” by D. Donnelly, J. Quirin, and D. O’Bryan, *The Journal of Applied Business Research* (Vol. 19, No. 1, 2003): 95–108.

The authors develop and test a theoretical model of antecedents to dysfunctional audit behavior. Testing of the model is based on the survey responses of 113 auditors from accounting firms of various sizes. The survey instrument measured auditors’ attitudes towards three forms of dysfunctional behavior: premature sign-off, underreporting time, and altering audit procedures. The researchers found that auditors with the strongest internal (external) locus of control were less (more) likely to accept dysfunctional audit behavior and had significantly higher (lower) levels of organizational commitment. Organizational commitment was found to have a negative relationship with acceptance of dysfunctional audit behaviors. Additionally, the results demonstrate that the higher an auditor’s position within the firm, the less likely they are to accept dysfunctional audit behavior.

“Audit Committee Effectiveness: A Synthesis of the Empirical Audit Committee Literature,” by F. T. DeZoort, D. R. Hermanson, D. S. Archambeault, and S. A. Reed, *Journal of Accounting Literature* (Vol. 21, 2002): 38–75.

Given well-publicized concerns about corporate governance and the quality of financial reporting, this article provides a timely overview of the existing literature on audit committee (AC) effectiveness. The literature reviewed in the article is organized around four determinants of AC effectiveness: composition (including expertise, integrity, and objectivity of AC members), authority (AC responsibilities and influences), resources (e.g., access to management and auditors, adequate number of AC members) and diligence (AC incentives, motivation, and perseverance). The article concludes by encouraging researchers to explore whether the current structure of ACs can meet the ever-increasing expectations of various stakeholders.

“Have You Seen These Instructional Resources?”

Education Committee of the Auditing Section of the AAA
(Donald E. Tidrick, chair; Michael D. Akers, James Bierstaker; Susan Parker;
Pamela B. Roush; Charles W. Stanley; and C. William Thomas)

Accounting “ethics” frequently is taught in connection with auditing/assurance courses, but arguably may too often be limited to coverage of the AICPA Code of Professional Conduct. Few topics have been more visible in the financial press. A quick Internet search for “ethics” or “accounting ethics” generates an enormous number of hits, and ABI/Inform identifies more than a thousand items for “accounting ethics.” The Education Committee has compiled a set of ethics-related resources that we believe may be useful to Section members wishing to enrich their approach to this broad and increasingly important topic to the accounting profession. These materials include video, websites, various links, and selected speeches and articles that are available electronically. Many more articles of interest can be located by searching *The CPA Journal*, the *Journal of Accountancy*, or other sources.

We hope that these efforts might increase the discussion among the Section’s members about instructional materials and resources that other faculty find particularly effective in their own assurance and auditing classes. As always, we welcome your comments and suggestions.

List of Educational Resources for Ethics in Accounting

Format	Title	Date	Source	Description	How to Obtain
Streaming Video	“The Wall Street Fix”	2003	Public Broadcasting Service (PBS)	A 5-part Frontline video that focuses on WorldCom and its investment bankers. The 5 episodes total 53 minutes.	View online at: www.pbs.org/wgbh/pages/frontline/shows/wallstreet/view/
Videotape and booklet	“Crossing the Line: Ethical Lessons for Financial Professionals”	1998	Association of Certified Fraud Examiners (ACFE)	A 25-minute video that focuses on a former CPA who was sentenced to prison for his role in a client’s fraud. Also includes a 110-page workbook.	http://marketplace.cfenet.com/Products/ProductDetail.asp?CatID=100127 or call (800) 245-3321 The cost is \$35 for members and \$39 for non-members.
Videotape and booklet	“Making Ethical Decisions” – Video and Booklet Product code: 80-0740	November 2002	Josephson Institute of Ethics	Ethicist Michael Josephson discusses ethical values and decision making in everyday life. The video is 90 minutes and the booklet is 33 pages.	www.charactercounts.org/Merchant2/merchant.mv?Screen=PROD&Store_Code=CCMP&Product_Code=80-0740&Category_Code=6 or call 800-711-2670 The cost is \$29.95 for the video and booklet [the booklet can be ordered separately for \$6.95 as Code # 50-0450].
Website	Various	Current	Josephson Institute of Ethics	Extensive resources related to ethics and character building, including excellent links and commentaries, such as “Making Ethical Decisions,” a guide ...	www.josephsoninstitute.org www.josephsoninstitute.org/MED/MED-intro+toc.htm
Various	Online News Hour Corporate Ethics	Various	PBS	Various articles, audio and streaming video clips related to recent corporate scandals.	www.pbs.org/newshour/bb/business/ethics/
Website	AICPA Professional Ethics Resources	Current	AICPA	Extensive list of resources from the Professional Ethics Division, including links to the AICPA ethics standards.	www.aicpa.org/members/div/ethics/index.htm

“Have You Seen These Instructional Resources?”

(continued from page 12)

Format	Title	Date	Source	Description	How to Obtain
Website	AICPA Antifraud and Corporate Responsibility Resource Center	Current	AICPA	Various materials, including cases , streaming video, and more, that focus on ethical issues relevant to accountants and auditors.	www.aicpa.org/antifraud/homepage.htm www.aicpa.org/antifraud/educators_students/homepage.htm
Website	Various	1998–2001	Independence Standards Board (ISB)	Publications, exposure drafts, and speeches associated with the (erstwhile) ISB	www.cpaindependence.org
Website	Various	Current	Public Company Accounting Oversight Board	The PCAOB has statutory authority to set auditing, quality control, and ethical standards. The website will contain links to related materials.	www.pcaobus.org/
Website	Ethics Teaching Materials	Various	Carnegie Mellon Graduate School of Industrial Administration	Case studies, articles, and links to an interesting set of business and accounting ethics resources. (Includes Arthur Andersen Case Studies from 1987-1994 with most teaching notes.)	http://ba.gsia.cmu.edu/ethics/teaching.htm
Speech	“Remarks to the National Press Club” by William H. Donaldson, SEC Chairman	July 30, 2003	U. S. Securities and Exchange Commission	Reflections one year after passage of Sarbanes-Oxley Act, along with comments about the SEC’s continuing agenda.	www.sec.gov/news/speech/spch073003whd.htm
Speech	“Post-Enron Challenges for the Auditing Profession: Accountability” by James E. Copeland, Jr.	April 2003	<i>Vital Speeches of the Day</i> (Vol. 69, No. 12, pp. 360–364)	Recently retired CEO of Deloitte Touche Tohmatsu offers insights about the forces for reform impacting auditors.	Full text available on ABI/Inform
Speech	“Pristine Ethics: Who Do You Trust?” by Sherron Watkins	May 2003	<i>Vital Speeches of the Day</i> (Vol. 69, No. 14, pp. 435–439)	Former Enron manager (and Time Co-Person of the Year 2002) comments on the company’s ethical decline.	Full text available on ABI/Inform
Article	“The PCAOB and Tax Services” by Daniel L. Goelzer	March/April 2003	<i>Tax Executive</i> (Vol. 55, No. 2, pp. 146–149)	Public Company Accounting Oversight Board member comments on the development of the PCAOB and issues related to tax practice.	Full text available on ABI/Inform
Article	“Lingering Problems in Accounting and Auditing” by Steven C. Hall	May 2003	<i>Journal of Financial Service Professionals</i> (Vol. 57, No. 3, pp. 14–16)	An accounting educator is asked an interesting ethical question by a former student, which might serve as a basis for class discussion.	Full text available on ABI/Inform
Article	“Ensuring Ethical Effectiveness” by Randy Myers	February 2003	<i>Journal of Accountancy</i> (Vol. 195, No. 2, pp. 28–33)	Overview of issues related to developing corporate codes of ethics, plus useful resources.	www.aicpa.org/pubs/jofa/feb2003/myers.htm

Some Thoughts on Retooling Economics Theory and Methods

Michael Willenborg — University of Connecticut, on behalf of the Research Committee

As academics, we arguably pass through four distinct career phases: Ph.D.—Student life, Assistant Professor life, Associate Professor life and the (good?) life of a Full Professor. Back when I completed the 1st phase, and was embarking on the 2nd, I took Daniel Hamermesh's (1992) advice seriously. He suggests forcing yourself to present your papers, providing a fast start on submitting them, and aiming high in terms of where you send them. He also suggests how to read editor letters and referee reports and offers lots of other good advice. Notably absent from his suggestions is that one should take time to “retool.” Of course, this omission makes perfect sense; after all, Hamermesh's article is written for people just starting the 2nd phase (i.e., who have just finished their “tooling” in the 1st phase). In this article, I offer some thoughts on the 3rd phase of academic life. In particular, I share some of the things I do to retool my economics theory and methods.

Because this article is the second in a two-article sequence, I echo Steve Salterio's advice provided in his article in the Summer 2003 issue, the essence of which is to allot some time and take a course. Indeed, some years ago, while I was working at KPMG's National Office (and, with the benefit of hindsight, getting a pre-doctorate education), I vividly recall taking (along with Tim Bell) a course in discrete choice econometrics at MIT. I found the material and the instruction (some of which from future Nobel prize winner Daniel McFadden) extremely valuable for me as a future researcher. So, if you're presently at a university that is at or above the level of your Ph. D.-granting university, you could audit a course in your economics or statistics departments. I know that this strategy was a successful one for Rick Tubbs, who audited a course in signal detection theory at the University of Iowa (Sprinkle and Tubbs 1998). Therefore, I agree with Steve's advice—finding and attending a good stand-alone course is an excellent suggestion that also applies to economics-based researchers.

Indeed, in terms of taking a stand-alone course (and again with the benefit of hindsight), among the “smarter” things I did during my 1st (Ph.D.) phase was to take two “additional” courses for credit that few other students at my doctoral institution took. The first was a lecture course in empirical industrial organization and the second was a seminar in limited dependent variable econometrics. As I toiled away during my 2nd (Assistant Professor) phase, these two courses helped me greatly (i.e., they map directly to three of my published papers). However, now that I'm in my 3rd (associate professor) phase, I'm trying to figure out how to retool in economic theory and methods.

Of course, to use a phrase from economics, I face a constrained optimization problem. That is, given human resource constraints

(i.e., there are only 24 hours in a day), family and friends, teaching and service (which, if you ask me, really increases from the 2nd to 3rd phases), I am hard-pressed to find the time to take a stand-alone course. Consequently, the issue becomes how to retool in a manner that is both effective and efficient. In this regard, here are some suggestions that are perhaps more “real time” in nature than are Steve's.

- Read/scan the literature, especially economics and finance.

In addition to the usual suspects (e.g., *TAR*, *JAR*, *JAE*, *CAR*, *AJPT*), I try to set aside time (often in the evening, after my kids are asleep) to read/scan economics and finance journals. For me, this is *AER* (*American Economic Review*), *RAND* (*RAND Journal of Economics*), *JF* (*Journal of Finance*), and *JFE* (*Journal of Financial Economics*); with a particular focus on the empirical papers. Let's face it, the accounting literature often lags the economics and finance literature. For example, the econometric “innovation” (i.e., a treatment effects model) to the auditing literature that a recent paper of mine might offer (Weber and Willenborg 2003) is from a 24-year old economics paper (Willis and Rosen 1979). Beyond methods, this approach has helped me with respect to incorporating economic theory into my papers. For example, using this approach, I came across a theoretical paper in *RAND* that was invaluable to motivating an insurance paper I was trying to publish (Willenborg 2000). Beyond mapping methods and theory into research projects, I find reading/scanning this literature interesting and fun (e.g., the recent Spring 2003 *The Journal of Economic Perspective's* issue on Enron and conflict-of-interest with papers by Paul Healy and Krishna Palepu, Joel Demski, and Baruch Lev.)

- Involve yourself in the Ph.D. program (if your school has one).

If you're presently on the faculty at a Ph.D.-granting school, one of the best ways to retool is to involve yourself with the Ph.D. program. This Fall, I'll teach a Ph.D. course that I'm hoping will both energize me and keep me current.

- Use your sabbatical or other leave of absence wisely (if you get one).

If you're on the faculty at a school that grants sabbatical leave, or at a school where you don't have to teach (or be on-site) for a semester at a time, you may choose to visit another university. This past Spring, I visited the University of Maastricht. Frankly, with a professional spouse and three kids, it was quite tricky to arrange this. But, in hindsight, it was a terrific experience that is helping me broaden my perspective on accounting research.

- Reach out and email someone (especially a methodological “expert”).

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Some Thoughts on Retooling Economics Theory and Methods

(continued from page 14)

A few years ago, my co-authors and I were stumped with respect to satisfying a referee's methodological point (moreover, the editor was clear that the paper would not be published unless we satisfied the referee). So, what did we do? We sent a short, respectful email to worldwide experts in this methodology (count-data econometrics). And guess what? One responded with a very helpful idea. We wrote the Gauss code, ran the test, satisfied the referee, and published our paper (Rock et al. 2000).

- “Master” a comprehensive econometrics package.

Disregard the above mention regarding writing Gauss code (anyway, I confess that my econometrician colleague, Stan Sedo, did this). I find that I need to be able to quickly and effectively execute statistical and econometric analysis. Mostly, I accomplish this using LimDep, an off-the-shelf econometric package that, while a little quirky, typically always suits my needs. Frankly, I find that I don't really have the time to learn many other packages. For many of my co-authors, it's SAS or STATA. Though it's a little dated, see MacKie-Mason (1992) for a general discussion.

- Finally, if you haven't already done so, get a copy of Peter Kennedy's book, *A Guide to Econometrics*, MIT Press, Cambridge, MA (<http://mitpress.mit.edu>). It's probably the

best \$20 I've ever spent (on something that helps me with my research).

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American Accounting Association — Auditing Section *Auditing Standards Committee*

October 1, 2003

Committee of Sponsoring Organizations of the Treadway Commission

PricewaterhouseCoopers LLP

RE: **Invitation to Comment on the *Enterprise Risk Management Framework***

Dear COSO and PwC:

The Auditing Standards Committee (ASC) of the Auditing Section of the American Accounting Association welcomes the opportunity to comment on the proposed COSO Enterprise Risk Management (ERM) Framework. We commend COSO and PwC for pursuing this ambitious project, and we believe that the final document will have a significant positive impact on a wide range of entities.

The comments below are organized as follows: Substantive Comments on the Framework Itself, Significant Editorial Comments, and Other Comments. Note that many of the comments have “carry-through effects” due to wording that appears in both the Executive Summary and the larger Framework document. Generally, we refer only to the page numbers within the Executive Summary for such items.

Substantive Comments on the Framework Itself

1. **Type of reasonable assurance / Apparent inconsistency with *Internal Control – Integrated Framework*** – The definition of ERM on page 3 of the Executive Summary mentions providing “reasonable assurance regarding the achievement of entity objectives.” Given this definition, we were surprised to see on page 6 that for the strategic and operational objectives, this means only reasonable assurance of understanding “the extent to which the objectives are being achieved” (not reasonable assurance of actually *achieving* the strategic and operational objectives). We appreciate the discussion in the document about strategic and operational outcomes being less controllable, but we question whether this reduced controllability is so significant that it is necessary to back completely away from providing reasonable assurance of achieving strategic and operational goals. Even in reporting and

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Auditing Standards Committee

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compliance, there are many uncontrollable factors, including rogue employees, employee error, changes in regulators' enforcement strategies, changing interpretations of laws and regulations, etc. If there is a compelling reason to be very cautious with respect to defining reasonable assurance in the strategic and operational areas, then we question whether the definition of ERM on page 3 ("reasonable assurance regarding the achievement of entity objectives") is consistent with relatively weaker language on page 6 regarding strategic and operational objectives. Should the ERM definition be clarified to address this issue?

Even more importantly, we question whether the weakened level of assurance for operational objectives on page 6 is consistent with COSO's *Internal Control – Integrated Framework* (1992). Specifically, COSO (1992) states that an effective system of internal control is "designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations ..." Is the message that ERM provides *less* assurance than internal control for operational objectives? We are unclear as to the reason for the "disconnect" between the operational assurance level in the present ERM document and that in the 1992 internal control publication, and we believe that this represents a significant conceptual obstacle. In particular, we are unclear whether compliance with the ERM framework implies compliance with the internal control framework. Based on the above conflict, this does not appear to be the case, for internal control appears to go beyond ERM in terms of the assurance provided for operational objectives. However, ERM apparently "encompasses" internal control, which appears to us to be inconsistent. Further, the issue of differing types of reasonable assurance for operational objectives is not addressed in Appendix B, where an attempt is made to discuss the relationship between ERM and internal control.

2. Risk appetite issues – The document appropriately notes "risk appetite" as a fundamental component of an entity's internal environment. Given that an entity's risk appetite presumably drives much of its strategy, and therefore the subsequent risks that will ultimately be encountered by the entity, we believe that more discussion should be provided regarding risk appetite, including:

- a. What is the most appropriate way to measure risk appetite? Are there any "best practices" that could be cited in the document to provide guidance to users in this regard?
- b. Possibly one of the pitfalls that entities encounter is that they believe that their decisions are consistent with "x" risk appetite, whereas their decisions are actually consistent with a "greater than x" risk appetite. In other words, it seems sensible that entities might unintentionally underestimate their risk appetite. We believe that the document should comment on ways to avoid measurement error in determining risk appetite.
- c. What is the possible impact of conflicting interests on the risk appetite? For example, should the risk appetite reflect the preferences of diversified shareholders, institutional investors, board members, top management, employees, or others? Research suggests that managers typically are more risk-averse than are diversified shareholders. In such cases, whose risk appetite should prevail, and what role should the board play in resolving conflicting preferences regarding the risk appetite?

3. The ERM diagram – Exhibit 2 presents the ERM framework largely as a sequential process. However, we believe that the ERM framework is interconnected and consists of multiple feedback loops and interconnections. Although a framework presented as a linear process may be easier to understand initially, we believe that adopters might behave in a linear fashion. Such behavior detracts from viewing risk management from a holistic perspective. To illustrate, consider whether an internal environment is established *prior* to objective setting. One of the components of the internal environment, commitment to competence, normally is dependent upon strategic and operational objective setting. Should an organization decide to be a high-volume, moderate-quality producer that utilizes alliance partners to achieve many operational objectives, commitment to competence might receive a low priority for some aspects of the business model (while others certainly will receive a high priority). Risk management is a complex process, and we believe that the ERM framework might overly simplify it in an effort to enhance initial understandability.

To address this issue, we recommend at a minimum that in the discussion related to Exhibit 2 COSO strongly caution the reader about viewing the ERM framework as being sequential in nature. Alternatively, providing a diagram that moves away from a linear, sequential process could be considered.

4. Definition of ERM effectiveness – On page 18, ERM effectiveness is defined as "a subjective judgment resulting from an assessment of whether all eight components are present and functioning properly." In other words, this is a process definition where one subjectively rates the components of the process. An alternative definition could focus on the outcomes—"ERM is effective when the entity has achieved reasonable assurance of meeting its objectives in the four areas." By this we mean that the entity either has met the objectives, or management at least understands what "less controllable factors" caused the entity not to meet them. While the process approach and the outcome approach each have advantages and limitations, we encourage either:

- a. Consideration of an outcome component in the ERM effectiveness definition (or discussion of why this approach was not used),
or
- b. Additional guidance on how one would determine that each of the eight components is functioning "properly." Are there specific ways to measure "functioning properly" for each of the eight components?

(continued on page 17)

Auditing Standards Committee

(continued from page 16)

Significant Editorial Comments

1. **Need for succinct synopsis** – We believe that one key to the success and acceptance of the framework is its accessibility to the CEO and board of director audiences. Accordingly, we encourage COSO to pay particular attention to providing a very succinct and direct summary of the definition of ERM, the basic framework, the framework’s key components, and ERM’s potential advantages and limitations—perhaps in a 3–4 page top-level synopsis at the very front of the document, or in a re-crafting of the Executive Summary. Such a synopsis should include Exhibits 1 and 2 to better communicate the overall model from the start. As currently written, we are concerned that the Executive Summary may not maximize the chances of securing CEO and director interest. Among our concerns are:
 - a. The Executive Summary does not present a diagram of the ERM process until pages 16 and 17. As a result, readers may have difficulty envisioning the framework as they read through the majority of the Executive Summary.
 - b. The Executive Summary does not define ERM until page 3—after the relevance and benefits of ERM have been presented. We believe that the definition should be provided up front. Similarly, Chapters 1 and 2 of the Framework document probably should be reversed.
 - c. The sections discussing each component of the framework (pages 7–15) are quite detailed and lengthy. We suggest significantly shortening these sections in the Executive Summary and elaborating on the components in the larger Framework document.
2. **Need for greater discussion of strategic and operational objectives** – We are concerned that the framework does not provide sufficient depth and details related to objectives in two of the four categories delineated in the document—strategic and operational. The framework illustrates that all steps of the framework should apply to all four categories. However, many of the examples throughout the document, particularly in the control activities section, focus primarily on reporting and compliance issues. These two categories are more commonly understood by the document’s audience than the other two categories, strategic and operational. We suggest specifically walking through each step of the framework for each of the categories.
3. **Need to soften or clarify basis for claims** – Pages 2–3 of the Executive Summary describe many benefits of ERM. These culminate with the claim that ERM “helps an entity get to where it wants to go and avoid pitfalls and surprises along the way.” Earlier on page 2, it says that ERM “facilitates management’s ability to both create sustainable value and communicate the value created to stakeholders.” We appreciate the need to communicate the relevance of ERM to professional audiences, but we suggest softening the “selling” of ERM unless there is solid evidence (compelling case studies, large sample studies of companies, etc.) documenting the various advantages of ERM. If such evidence exists, we strongly suggest citing relevant research on the advantages of ERM.
4. **Additional tools/Comprehensive example** – The entire document would benefit from further illustrative examples like those found in Exhibit 5.1. Perhaps what the authors could do is to include an appendix at the end of the document that lists resources for entities interested in following the framework (e.g., books, research articles, examples of companies that illustrate important parts of the framework). Also, has COSO considered a second stage of this project in which a comprehensive example of the ERM development process could be illustrated? Such an example could be based on a case study or simply a fictitious entity. In either case, we believe that providing a comprehensive, practical example would further enhance the message. Anything that could be added to the document that would bring it from its currently very qualitative, non-specific focus down to a more concrete, example-driven focus would be helpful in making the document more useful.
5. **Expansion of chapters on risk assessment, risk response, and control activities (Chapters 6–8)** – Risk assessment and risk response are essential components of the framework, since they represent the heart or “how-to” portion of risk management. We believe that the framework would benefit by including more in-depth discussion of these components, linking the issues to prior research and theory, and providing specific examples to illustrate the key points. In particular, Chapter 6 appeared to us to be relatively light in its discussion of risk assessment tools and techniques. In addition, we believe that there is not enough guidance related to risk correlations, and any expanded discussion should distinguish among interactions, causal chains, and correlations.

We believe that the control activities section, Chapter 8, is the least developed in the document. We recommend expanding this discussion to focus more directly on strategic and operational control activities. For example, Simon’s (1995) *Levers of Control* discusses types of strategic controls that include elements of the control activities and internal environment components of the framework. As currently written, we believe that most adopters of the framework will view control activities much the same as was described in COSO (1992) and not focus nearly enough on control activities for strategic and operational risks.

We also recommend expanding the control activities and risk response sections to discuss the specific costs associated with the choices made for risk reduction (and other responses). Although there currently is a discussion in the document relating to risk assessment being likelihood x impact, there is no discussion of impact costs for risk-response choices and specific costs associated with control activities. We do not believe that basic statements about the trade-off of costs and benefits provide enough guidance. Costs associated with risk management activities can be highly material, but are sometimes necessary. Only after consideration of specific costs associated with risk reduction and sharing can wise decisions about accepting or avoiding risks be made.

(continued on page 18)

Auditing Standards Committee

(continued from page 17)

Other Comments

1. Exhibits – Throughout the document, we suggest including a title with each exhibit to clearly identify the contents of the exhibit.
2. Contents – We suggest expanding the Table of Contents to include various subheadings in each of the chapters.
3. Paragraphs – We encourage consideration of numbering the document’s paragraphs to assist in referring to specific sections.
4. Executive Summary (ES), Page 3 – Should “rationalize capital” be “ration capital”?
5. ES, Page 5 – We encourage clarifying the paragraph “Applied in Strategy Setting.” The message of this paragraph was not clear to us. Is the paragraph saying that ERM involves assessing the riskiness of different strategies?
6. ES, Page 6 – We believe that generating a desired return from a strategy does not always equal the achievement of strategic goals. We recommend adding goal achievement to illustrate the framework’s reach beyond accounting and financial measures.
7. ES, Pages 9–10 – We suggest defining “events” (now at the top of page 10) before discussing event identification.
8. ES, Page 11 – We believe that viewing risks from the perspective of long term and short term could be detrimental. Perhaps this section could be bolstered by adding the notion of precursors to a disease. Long-term risks should be studied for precursors so that monitoring mechanisms can be identified to effectively manage these risks by addressing them before they occur.
9. Main Framework (MF), Pages 17–18 – We question whether the discussion on ERM and the Management Process adds value to the report, for it raises a number of questions. For example, we disagree that establishing mission and values is *not* part of ERM. These items serve as belief systems (e.g., Simon 1995, *Levers of Control*) that help in guiding behaviors of managers and operational employees to help in achieving strategic objectives. Also, we believe that setting performance measures is part of ERM—such measures serve as diagnostic strategic controls. Finally, the discussion indicates that selecting a specific risk response is not part of ERM. Doesn’t the selected response need to be appropriate for the entity’s selected risk appetite? Wouldn’t then the selection of a risk response be part of ERM? Overall, we question whether this discussion should be included at all. Do the benefits of this discussion outweigh the potential confusion that might be created?
10. MF, Page 22 – The term “corporate culture” is introduced in this section. Is corporate culture a component of Internal Environment? We believe that some additional discussion on the concept of corporate culture is warranted.
11. MF, Page 29 – The report indicates that the following words are being used interchangeably: mission, vision, purpose. In general, we are concerned whether the whole discussion on strategies, goals, objectives, mission, and vision ties nicely to the strategy literature. For example, does the sentence indicating that “strategic objectives are high-level goals, aligned with and supporting the entity’s mission/vision” have support in the strategy literature? Further, these strategy-related terms appear to be important to much of the discussion in the report, yet they are not defined in the Glossary.
12. MF, Page 30 – We found Exhibit 4.1 somewhat confusing. We believe that each strategic objective should link to one or more strategies, and each strategy should link to operational objectives that have associated reporting and compliance objectives.
13. MF, Pages 38–46 – We question why there are so many specific factors listed for event identification (also see Exhibit 5.2). We suggest that adopters be directed to the well-established management literature (e.g., PEST factor literature, Michael Porter’s (1985) *Five Forces*, industry guides such as Standard & Poor’s or Moody’s) for examples. We believe that the Framework document does not need to be all-inclusive. These exhaustive lists of examples potentially limit the extent of probing that adopters might pursue related to the uniqueness of their businesses. The method utilized in Exhibit 6.1 for impacts of risk assessment likely is a better approach than exhaustive lists.
14. MF, Page 39 – The subheading is titled “Factors Influencing Strategy and Objectives.” What is the difference between factors and events? Do factors lead to events? Additional discussion may be warranted to clarify the term “factors.”
15. MF, Page 61 – The term “business objectives” is used. How do business objectives relate to the objectives that are the focus of ERM (i.e., strategic, operational, reporting, and compliance objectives)?
16. MF, Page 62 – Exhibit 8.1 does not demonstrate clearly that strategic and operational controls are much broader than accounting system controls described in COSO (1992). Again, describing each framework component for strategic, operational, reporting, and compliance objectives would be more effective for making this important distinction.
17. MF, Page 67 – Concepts of preventative and detective controls are in Exhibit 8.4, but are not well articulated in the body of the framework. We believe that this section would be improved by emphasizing this categorization and its relationship to likelihood and impact in risk assessment (i.e., detective controls reduce impact, and preventive controls reduce likelihood).
18. MF, Page 76 – We question why a discussion of Prospect Theory was included here, but discussions of broader and perhaps more relevant theories are not included throughout the framework. For example, the ERM framework discussed in this document and other risk management programs heavily emphasize organizational architecture, agency model, and systems theory literature. As an example of how this literature is imbedded in a risk management framework, we recommend consulting the University of Illinois’ Project Discovery curriculum. Their accounting program is grounded in viewing accounting from a holistic risk management framework and heavily utilizes these theories.

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Auditing Standards Committee

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19. MF, Page 82 – We found the discussion under the subheading of “The Evaluation Process” to be a bit disconnected. First, there is a list of activities that might be performed to evaluate the process. We assume that these activities are tests, yet they are not referred to as such. However, the next paragraph goes on to talk about the results of tests performed. If the list of activities is meant to describe tests to be performed, then they should be labeled as such. The two tests listed could be described as inquiry and examination of documentation. Would it also be appropriate to include such common tests of controls as observation and re-performance?
20. MF, Page 93 – We found the characteristics of effective board members (i.e., objective, capable, and inquisitive) to be somewhat inconsistent with the corporate governance literature. Authors typically refer to director independence, diligence, and expertise as the cornerstones of board effectiveness.
21. MF, Page 96 – We wonder whether the Chief Information Officer should be included in this discussion. This individual has a great deal of responsibility related to the achievement of the objectives listed in the report (in particular, reporting and compliance objectives).
22. MF, Page 99 – The discussion of the auditor’s responsibilities related to internal control effectiveness should be updated to reflect Section 404 of the Sarbanes-Oxley Act. We realize that the first paragraph on page 100 is likely meant to address this change, but we are not sure if it is sufficient.
23. MF, Page 102 – Based on the discussion included in this paragraph, it is not clear to us what actions regulators should take as a result of this report. We suggest being more specific about the implications for regulators.
24. MF, Shaded boxes with examples – Throughout the chapters, several examples are provided in shaded boxes. While we found these examples to be interesting, it was not always clear to us the specific point that is being made. However, in a couple places the report does a nice job of clearly stating the point that the shaded box is intended to convey (for example, see Exhibit 7.1 on pages 53–54; page 61; page 72). Further, the example in the shaded box at the bottom of page 76 may be too abstract. Could the example be modified to be more specific to a business setting?
25. MF, End of each chapter – We support the intended goal of including end of chapter exhibits summarizing the key ideas in each chapter (see Chapters 3–10). However, we believe that some improvements to them could be made. For example, in Exhibit 3.1, we are not sure that the descriptive words for each of these components do a good job of summarizing the narrative. If a one- or two-sentence summary were provided for each item, this might be more valuable than a bullet list of terms. In other cases, the tie between the chapter narrative and the end-of-the-chapter exhibit is somewhat loose (e.g., Exhibit 6.2 uses subheadings that are similar, although not identical, to the subheadings contained in the narrative; Exhibit 7.2 deletes a subheading that was included in the text—Iterative Process).
26. Appendix B – Is the internal environment comprised of the control environment, as well as additional items? If so, we suggest including an explicit reference to the term control environment.

We hope that our suggestions are helpful and will assist in your development of the ERM framework. Please feel free to contact our committee Chair for elaboration on or clarification of any comment.

Respectfully Submitted,

Auditing Standards Committee
Auditing Section, American Accounting Association

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Stuart Turley, University of Manchester

REPORT ON THE UNIVERSITY OF ALBERTA CONFERENCE ON RECENT ACCOUNTING ABUSES

In May 2003, the Department of Accounting & MIS of the University of Alberta, with the assistance of the Institute of Chartered Accountants of Alberta, sponsored a conference entitled “*Financial Reporting under Scrutiny: Reflecting on the Series of Recent Accounting Abuses.*”

The two-day international conference was a forum for scholars and practitioners to consider and exchange ideas on the recent spate of accounting abuses. Academics from across North America presented papers on a variety of topics. From professional attitudes to corporate governance, conference sessions provided various perspectives on the accounting abuses, including possible causes and effects, as well as an examination of potentially related and more widespread problems.

The following papers were presented at the Conference:

PAPER

Financial Engineering, Corporate Governance, and the Collapse of Enron

A League of Their Own? Financial Analysts’ Responses to Restatements and Corrective Disclosures

Professional Insecurity, Accountant Identity and the Erosion of Accountancy’s Jurisdictional Boundaries

Is CEO Certification of Earnings Numbers Value-Relevant?

Accountability and Independence in Corporate Governance: A Structuration Perspective on Board Responsibilities

Exploring the Term of the Auditor-Client Relationship and the Quality of Earnings: A Case for Mandatory Auditor Rotation?

Former Audit Firm Personnel as CFOs: Frequency and Effect on Audit Quality

Evidence about Auditor-Client Management Negotiation Concerning Client’s Financial Reporting: The Chief Financial Officer Perspective

Have Accountants Lost the Moral Right to Conduct Audits?

Known by the Company They Keep: A Study of Political Campaign Contributions Made by the United States Public Accounting Profession

Accounting for Enron: Media Accounts, Cultural Narratives, and the Reproduction of “Faith” in the Markets

What if Andersen Had Shredded in Toronto or Calgary? The Potential for Criminal Liability for Canadian Public Accounting Firms

AUTHOR(S)

Stuart L. Gillan and John D. Martin, University of Delaware

Paul Griffin, University of California, Davis

Yves Gendron, University of Alberta; and Roy Suddaby, University of Iowa

Utpal Bhattacharya, Peter Groznik and Bruce Haslem, Indiana University

Cameron Graham and Duncan Green, University of Calgary

James Myers and Linda A. Myers, University of Illinois at Urbana-Champaign; and Thomas C. Omer, University of Illinois at Chicago

Thomas D. Dowdell and Jagan Krishnan, Temple University

Steven Salterio, University of Waterloo; Susan McCracken, University of Toronto; and Michael Gibbins, University of Alberta

Paul Dunn and Ian Adamson, Brock University

Peggy D. Dwyer and Robin W. Roberts, University of Central Florida

James Williams, University of Alberta

Sally Gunz and Steven Salterio, University of Waterloo

About 60 people participated in the Conference, including people from the Alberta Chartered Accountants profession. According to Steve Glover, Executive Director of the Institute of Chartered Accountants of Alberta, the conference was an important aspect of the profession’s process of renewal and rejuvenation: “Accounting research plays a key role in the growth and development of the profession and is particularly relevant during this challenging time. The conference brought a number of perspectives to the table, stimulating discussion and facilitating an exchange of ideas. Forums like this ensure the profession continues to grow and develop.”

The papers presented at the Conference can be accessed at the following website: <http://www.bus.ualberta.ca/Accounting-MIS/Conference/conference%20paper.htm>.

2004 Auditing Doctoral Consortium Program

Thursday, January 15, 2004 — Clearwater, FL

The Auditing Section of the American Accounting Association and KPMG are sponsoring the fifth annual Auditing Doctoral Consortium to be held in conjunction with the Auditing Section's Midyear Conference, January 15–17, 2004, in Clearwater, Florida. The purpose of the Consortium is to stimulate students' research by exposing them to the very latest ideas from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students interested in auditing, established auditing researchers, and editors of journals in which they will seek to publish. I ask you to help in publicizing the Consortium to your Ph.D. students and in supporting and encouraging their attendance. Students may be at any stage in their program, and there is no limit as to how many students may attend from each university. However, there is a limit on the total number of students who can attend the Consortium, and applicants will be accepted on a first-come basis.

Program

Time	Event	Speaker(s)
7:00–8:00 am	Breakfast	
8:00–8:15 am	Opening remarks	Ron King
8:15–9:15 am	Research on current auditing issues	Bill Kinney
9:15–9:30 am	Break	
9:30–10:30 am	Analytical auditing: New directions	Mark Penno
10:30–10:45 am	Break	
10:45–11:45 am	Experimental economics research in auditing	Rachel Schwartz
11:45–12:45 pm	Lunch	
12:45–1:45 pm	Empirical auditing research	Dan Simunic
1:45–2:00 pm	Break	
2:00–3:00 pm	Behavioral auditing research	Jane Kennedy
3:00–3:15 pm	Break	
3:15–5:15 pm	Authors' perspective	Mark Nelson
	Editors' perspective	Editors: Dan Simunic (<i>CAR</i>) Bill Messier (<i>AJPT</i>) Jane Kennedy (<i>TAR</i>)

Registration Information

The Consortium is sponsored by the Auditing Section and KPMG.

- Registration is free. For those students wishing to attend the Auditing Midyear Meeting (January 15–17) that follows the Consortium (January 15), the meeting registration fee is \$25.
- The Consortium is open to all Ph.D. students with an interest in auditing research. The size of the Consortium is limited, so students will be accepted on a first-come basis.
- Meals will be provided during the Consortium. The Meeting also provides breakfast and lunch for attendees, with a reception in the evening.

For additional information call (314) 935-6385 or email Ron King (King@olin.wustl.edu). Register by emailing Ron King. Please provide your name, mail and email addresses, phone and fax numbers, stage/year in program, and auditing research interests. Additional information will then be forwarded to you.

Call for Committee Volunteers

Openings currently exist on the following Auditing Section committees: Auditing Standards Committee, CPE Committee, Research Committee, Communications Committee, Education Committee, Membership and Regional Coordinators Committee, Notable Contributions to the Auditing Literature Award Selection Committee, Outstanding Auditing Dissertation Selection Committee, and 2005 Annual Meeting Committee.

The Section typically receives a larger number of volunteers than there are openings, so, the more flexible you are as to your committee assignment, the better your chances of being appointed to a committee. If you are interested in serving on an Auditing Section committee, please contact Linda McDaniel by January 31, 2004.

Linda McDaniel

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American Accounting Association
Auditing Section 2004 Midyear Meeting
 January 15–17, 2004 — Clearwater Beach, Florida

REGISTRATION FORM

Member ID#: _____ Full Name: _____

Nickname for badge: _____

University Name or Affiliation: _____

Mailing Address: _____

City: _____ State: _____ Country: _____ Zip: _____

Phone: _____ Fax: _____ Email: _____

Early Registration for Auditing Section Member (on or before December 10, 2003) \$150.00 _____

Auditing Section Member (after December 10, 2003) \$170.00 _____

Nonmember of Auditing Section* \$185.00 _____

Student \$ 25.00 _____

(Fee includes continental breakfast and lunch on Friday and Saturday, and receptions on all three days.)

CPE Session - Thursday January 15 - 1:00 - 4:00 P.M. \$ 50.00 _____

_____ Please register me for the CPE Session: Practice Insights on Sarbanes-Oxley 404 presented by KPMG

_____ I plan to attend the Saturday luncheon.

_____ I request a vegetarian meal for the luncheon.

*Members of the American Accounting Association who are not already members of the **Auditing Section** (via dues paid with Annual Meeting fees) may allocate \$35 of their registration fee to **join the Auditing Section**. Membership in the Auditing Section includes subscriptions to *Auditing: A Journal of Practice & Theory* and the Section's newsletter.

_____ I am an American Accounting Association member and would like to allocate \$35 of my registration fee to join the Auditing Section.

Total Amount Paid: \$ _____

Name on Credit Card: _____ Signature: _____

Card Number for VISA or MC (only) _____ Exp. Date: _____

If you are paying by credit card, you can fax this form to: (941) 923-4093.

If paying by check, please make check payable to the American Accounting Association and mail along with the completed application form to the:

American Accounting Association
 5717 Bessie Drive
 Sarasota, FL 34233-2399

Cancellation Policy

All cancellations must be received in writing at AAA in order to be processed. Cancellation requests received after December 10 will incur a \$25 cancellation charge. No refunds will be available for cancellations after January 9, or for no-shows.

The American Accounting Association intends to comply fully with the Americans with Disabilities Act (ADA). Any members planning to attend this meeting who have special needs, as covered by the ADA, are requested to notify Debbie Gardner at the American Accounting Association, debbie@aaahq.org or (941) 556-4101 to facilitate identification and accommodation of these needs by the Association.

TENTH ANNUAL MIDYEAR AUDITING SECTION CONFERENCE

The Tenth Annual Midyear Auditing Section Conference will be held in **Clearwater, Florida (Tampa area) on January 15–17, 2004**. The program will follow the same format as the 2003 meeting, with the last concurrent session scheduled to end at approximately 4:45 PM on Saturday, followed by a closing reception. A final agenda should be available on the section website in November.

On Thursday January 15, one CPE session will be presented by KPMG from 1:00 to 4:00 p.m. entitled “Practice Insights on Sarbanes-Oxley 404.” In addition the 2004 Auditing Section Doctoral Consortium will be held on January 15. On Friday morning, Douglas Carmichael, Chief Auditor and Director of Professional Standards of the Public Company Accounting Oversight Board, will speak to us. Concurrent research and teaching sessions will be held on a wide variety of contemporary topics related to audit, attestation and assurance practices, education, and research, and the meeting will include panel sessions by KPMG on Corporate Governance, and by the GAO on their studies required by Congress/Sarbanes Oxley. We also anticipate excellent panel sessions sponsored by section committees (e.g., research, education). More information on the Doctoral Consortium is included in the newsletter.

On Saturday January 17, 2004 (8:30 – 10:00 a.m.), the plenary panel is co-sponsored by the Auditing Standards Committee and the Practice Advisory Council and it is entitled “Setting Auditing Standards in the New Accounting Environment.” The moderator is Dana Hermanson (Kennesaw State University, Chair – Auditing Standards Committee of the Auditing Section) and panelists include Lynford Graham (BDO Seidman LLP, Member, Auditing Standards Board (ASB)); Gary Holstrum (University of South Florida, Consultant, Office of the Chief Auditor and Professional Standards, Public Company Accounting Oversight Board (PCAOB)); and Jim Sylph (Technical Director, International Auditing and Assurance Standards Board (IAASB)).

The conference will be held at the **Hilton Clearwater Beach Resort** in Clearwater Beach Florida, located 20 miles from the Tampa International Airport. Located on an island and overlooking the Gulf of Mexico, the Hilton Clearwater Beach Resort sits on 10 acres along a beautiful, private white sandy beach. Recreational facilities include beach cabanas, two beachside swimming pools, volleyball, waverunners, parasailing, and more. A short walk from the hotel is an entertainment pier. The island has 30 or more restaurants as well as many shops and attractions. Activities such as snorkeling, deep sea fishing, or sailing charters are also available. The Florida Aquarium, Salvador Dali Museum, and Busch Gardens are all within a few minutes drive. For children, there is the special recreation program “Fun Factory,” custom-designed to entertain and educate.

Hilton Clearwater Beach Resort

400 Mandalay Avenue, Clearwater, FL 33767

Tel: 1-727-461-3222 Fax: 1-727-461-0610

Website: <http://www.hilton.com>

Block Rate: A limited number of rooms have been reserved for Auditing Section Meeting attendees at a special conference rate of \$140 per night. It is strongly recommended that attendees make hotel reservations early to take advantage of the special room rate due to limited availability (the block rate expires December 15th).

The hotel requires that all reservations be guaranteed by either major credit card or first-night cash deposit. The hotel has an Early Departure fee of \$25 for guests checking out of the hotel before their stated departure date. Guests will have the opportunity to change their departure date at check-in without being assessed the fee. Published check-in time is 4:00 p.m., but every effort will be made to accommodate those guests arriving prior to 4:00 p.m.

Directions and Transportation: From Tampa: I-75 to I-275 South to Hwy. 60 West toward Clearwater Beach. At Roundabout exit onto Mandalay Avenue. Hotel is on the left.

Hotel Parking: Daily Parking Charge: \$5.00, Valet Parking Charge: \$8.00

SuperShuttle: Typical charge is USD \$19.75. Shuttles run regularly and advanced reservations are not required when traveling from the airport. Visit <http://www.supershuttle.com/html/cities/tpa.htm> or call (800) 282-6817 for more information.

Taxi: Typical minimum charge is USD 40.00

Limousine: Typical minimum charge is USD 38.00

Local Airports: *Tampa International*

Distance from hotel: 20 miles.

Drive time: 25 minutes.

Directions: Take Hwy 60 West to Clearwater Beach. Resort is at the corner of Hwy 60 and Mandalay Avenue.

St. Petersburg/Clearwater

Distance from hotel: 20 miles

Drive time: 25 minutes

Directions: Turn right out of the airport proceed to Bayway Bridge exit ramp. Cross Bayside Bridge and exit at Hwy 60 west. Follow Hwy 60 West to Clearwater Beach. Hwy 60 ends at Mandalay Avenue. Resort is on the corner of Mandalay and Hwy 60.

University of Waterloo
Symposium on Information Systems Assurance
Governance, Transparency, and Integrity: The Role of IT

October 31–November 1, 2003

Sponsored by the Canadian Institute of Chartered Accountants, the Information Systems Audit and Control Association,
the Gordon H. Cowperthwaite Education Foundation, and the *International Journal of Accounting Information Systems*.

Program Announcement

Thursday, October 30, 2003

7:30 am – 10:00 pm Opening Reception at the Skydome Hotel

Friday, October 31, 2003

8:30 am – 9:00 am Continental Breakfast, Opening Remarks

9:00 am – 10:15 am **Questions Directors Should Ask about IT**

Moderator: Alister Mason, University of Waterloo

Presenter: Gerry Trites, St. Francis Xavier University/CICA

Discussant: Ed O'Donnell, Arizona State University

10:15 am – 10:45 am Break

10:45 am – 12:00 noon **e-Commerce Privacy Disclosure and Practice in the U.S. and the U.K.**

Moderator: Bill Swirsky, CICA/UWCISA

Presenter: Karim Jamal, University of Alberta

Discussants: Darren Charters, University of Waterloo

Robert Parker, Deloitte & Touche

12:00 noon – 1:00 pm Lunch at CICA

1:00 pm – 2:00 pm **Black Box Monitoring of Audits**

Moderator: Linda Robinson, University of Waterloo

Presenters: Michael Alles, Alex Kogan, and Miklos Vaserhelyi, Rutgers University

Discussants: Paul Steinbart, Arizona State University

Eckhardt J. Kriel, Ernst & Young

2:00 pm – 3:00 pm **Using Control Charts to Monitor Financial Reporting of Public Companies**

Moderator: Paul Johns, Grant Thornton/UWCISA

Presenters: Richard Dull, Clemson University; and David Tegarden, Virginia Tech

Discussants: Sev Grabski, Michigan State University

Mark Davies, KPMG

3:30 pm – 4:15 pm **XBRL is Here! Caseware Software Demonstration**

Moderator: Won No, University of Waterloo

Presenter: Robert Cuthbertson, Caseware

4:15 pm – 5:30 pm **Tutorial on WebServices and their Assurance Implications**

Moderator: Carla Carnaghan, University of Waterloo

Presenters: Uday Murthy, University of South Florida; and Michael Groomer, Indiana University

Discussants: Eric Cohen, PricewaterhouseCoopers

Skip White, University of Delaware

6:30 for 7:00 pm Banquet (Location TBA)

Saturday, November 1, 2003

8:30 am – 10:30 am **IT Competencies for Assurance Practitioners**

Moderator: Claxton Martyr, KPMG/UWCISA

Presenters: Marilyn Greenstein, Arizona State University

Doug Wilkinson, Deloitte & Touche/CICA

Discussants: Carla Carnaghan, University of Waterloo

Brian Leader, Institute of Chartered Accountants of Ontario

10:30 am – 11:00 am Break

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University of Waterloo Symposium

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11:00 am – 12:00 noon	Invited Research Reports: IIA Study on B2B Risks Moderator: Malik Datardina, University of Waterloo Presenter: Steve Sutton, University of Connecticut Discussants: David Bateman, St. Mary's University Jonathan Andrews, NetLearn Services Inc.
12:00 noon – 1:00 pm	Lunch at CICA
1:00 pm – 2:00 pm	Invited Research Reports: IIA Study on Impact of SOX on Internal Audit Practice Moderator: Natalia Kotchetova, University of Waterloo Presenter: Glen Gray, California State University Discussants: TBA John Fraser, Sun Life
2:00 pm – 3:00 pm	Invited Research Reports: ISACA Study on Information Integrity Framework Moderator: Tom Lamm, ISACA Presenter: Efrim Boritz, University of Waterloo Discussants: Roger Debreceeny, Nanyang Technological University, Singapore Henry Grunberg, Ernst & Young
End of Symposium	

For further information, please contact:

J. Efrim Boritz (519) 888-4567 (ext. 5774) or Jenny Thompson (519) 888-4567 (ext. 2770)
University of Waterloo Center for Information Systems Assurance
Fax: (519) 888-7562 Email: jeboritz@uwaterloo.ca

CALL FOR SUBMISSIONS

2004 Innovation in Accounting Education Award

The American Accounting Association requests nominations for the Innovation in Accounting Education Award.

Award Intent

The award is intended to encourage innovation and improvement in accounting education, recognizing significant programmatic changes or a significant activity, concept, or set of materials. The winner may be an individual, a group of individuals, or an institution.

Award Criteria

The primary criteria used by the Selection Committee to judge submissions include:

1. innovation;
2. demonstrated educational benefits; and
3. adaptability by other educational institutions or to other situations.

Award Process

Application materials should include an executive summary of the activity, concept, or materials, and a statement explaining how (1) it is innovative, (2) has demonstrated educational benefits, and (3) can be adapted by other educational institutions or to other situations. Adequate materials must be submitted so that the evaluation committee can make an assessment on these three dimensions. All materials must be submitted by **January 15, 2004**.

Mailing Instructions

Submit application materials to Jamie Pratt, KPMG Professor of Accounting, Department of Accounting, Kelley School of Business, Indiana University, Bloomington, Indiana 47408.

Award Presentation

The winner will be announced in the *Accounting Education News*. The award, a plaque and \$5,000 funded by the Ernst & Young Foundation, will be presented at the 2004 AAA Annual Meeting.

Although publication is not a requirement for receiving the award, the award-winning innovation will be eligible for publication in *Issues in Accounting Education* as a scholarly article, subject to the normal manuscript review process.

PCAOB's Greg Scates Addressed Auditing Section Luncheon at the Annual Meeting in Honolulu

Greg Scates, an Associate Chief Auditor at the Public Company Accounting Oversight Board (PCAOB), served as the Auditing Section's luncheon speaker at the AAA Annual Meeting in Hawaii. Mr. Scates is one of four professional staff in the PCAOB's Office of the Chief Auditor, reporting directly to Dr. Douglas Carmichael.

Mr. Scates briefly discussed the origins of the PCAOB, who serves on the Board, and how the Board is funded. He indicated that the PCAOB has four responsibilities: (1) registration of public accounting firms that audit issuers, (2) inspections of registered public accounting firms, (3) investigation and enforcement, and (4) setting auditing, quality control, ethics, and independence standards.

All U.S. accounting firms that audit U.S. public companies must be registered with the PCAOB by October 22nd of this year—foreign accounting firms that audit U.S. issuers have until April 19, 2004 to register. Accounting firms that audit 100 or more issuers will be inspected annually, and firms that audit fewer than 100 companies will be inspected once every three years.

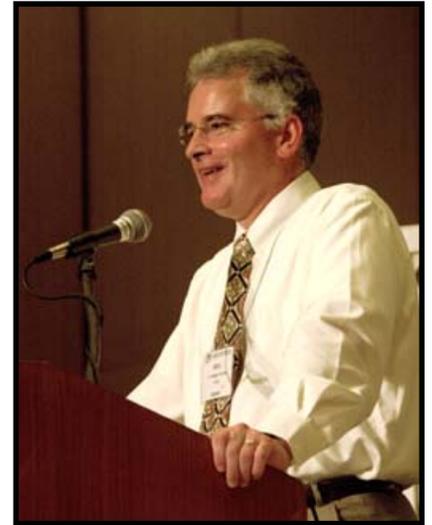
Mr. Scates devoted most of his talk to the Board's plans for setting auditing and other professional standards. The PCAOB has adopted the AICPA's auditing, quality control, and ethics standards on an interim basis, and has adopted independence standards from the AICPA and the Independence Standards Board, also on an interim basis. The Board will focus its initial standard-setting efforts in three areas: (1) developing standards mandated by the Sarbanes-Oxley Act, (2) reviewing existing auditing standards, and (3) establishing new standards.

The Sarbanes-Oxley Act requires the PCAOB to develop standards that guide auditors in reporting on managements' reports on internal

control over financial reporting. The Act also requires the Board to develop standards related to retention of audit working papers, second partner review, and quality control.

Although the PCAOB eventually will review all existing auditing standards, the Board will focus its initial efforts on reviewing the auditing standards and guidance related to financial fraud, confirmations, and materiality. Finally, the Board, in establishing new standards, will look first to providing guidance related to auditing revenue and reserves.

The Auditing Section greatly appreciates the willingness of Greg Scates to fly to Hawaii to provide our members with an update on the activities of the PCAOB.



Greg Scates, an Associate Chief Auditor at the Public Company Accounting Oversight Board (PCAOB), addresses the Auditing Section luncheon in Honolulu.

CALL FOR PAPERS

16th Symposium on Auditing Research

Office of Accounting Research — University of Illinois at Urbana–Champaign
October 7–9, 2004

The Sixteenth University of Illinois Symposium on Auditing Research will be held on the Urbana–Champaign campus on October 7–9, 2004. The symposium will be funded by the KPMG LLP Foundation. Authors of papers employing rigorous research methods (including exploratory methods when appropriate) are invited to submit papers. The scope of the symposium is broad, encompassing all aspects of auditing and assurance in all of their phases.

The Office of Accounting Research of the University of Illinois will publish a monograph that contains a synopsis of each paper presented and discussants' remarks. The intent is that such publication will not preclude authors from submitting completed papers to scholarly journals. Authors should follow *The Accounting Review* format and submit three double-spaced copies of the papers to:

Associate Professor Mark E. Peecher
Deloitte & Touche Teaching Fellow
Sixteenth Symposium on Auditing Research
University of Illinois at Urbana–Champaign
Department of Accountancy
1206 S. Sixth Street
Champaign, IL 61820

Submission Deadline: June 15, 2004.

A separate cover sheet should contain the name and address of the author to whom correspondence should be addressed. If applicable, it also should indicate other symposia or conferences at which the submitted paper has been or will be presented.

Authors will be notified during July as to whether submissions have been accepted for presentation at the symposium. Questions about the symposium should be directed to Mark E. Peecher at (217) 333-4542 or via email at peecher@uiuc.edu.

CALL FOR PAPERS — TUESDAY, APRIL 1, 2004

Ninth Symposium on Ethics in Accounting

August 2004 — Orlando, Florida

Beyond Sarbanes-Oxley: Can the Accounting Profession Meet Its Ethical Mandate?

The AAA's Professionalism and Ethics Committee invites papers for the Ninth Symposium on Ethics in Accounting, to be held immediately preceding the 2004 AAA Annual Meeting in Orlando.

Scope and Aims of Symposium

The Sarbanes-Oxley Act will be fully implemented before the meeting, providing an opportunity to reflect on its implications and to evaluate its initial effects. Rules have changed, but is there evidence that the accounting profession has a strategy for assuming the ethical mandate assigned by society? The current environment provides a unique opportunity to make a difference in the ethical climate of business. Is the accounting profession up to the challenge?

The conference will be open to *any papers related to ethics in accounting*. We especially encourage authors to develop and communicate a theoretical understanding of *why* the accounting profession continues to struggle through a series of ethical failures. *Positive, empirical explanations of "what is" are encouraged as well*. But perhaps it is time to also think theoretically of why things are the way they are, and to provide a road map based on theory that gives direction for change.

Based on submissions received, we expect to have *three tracks* at the conference: *a theory track, an empirical/experimental track, and an ethics education/case track*. This should lead to a lively interchange of ideas, potentially including time for informal "discussion sessions" with authors to aid them in fleshing out ways to apply ethics theory to the problems confronting the profession. The goal of this conference is to stimulate creativity in the accounting ethics community and to allow networking opportunities. We encourage collaboration with members of the profession outside academe. We welcome your suggestions (email mshaub@stmarytx.edu) on how to make this the most interesting accounting ethics conference you have ever attended. We want all members of the accounting ethics community to be included in this event.

A prize will be awarded for best overall paper and a separate award will be presented for the best paper authored by a Ph.D. student. Both presentation and forum sessions will be included in the program. All faculty and doctoral students are invited to attend; enrollment fee waivers are available for doctoral students, with registration covered by the Professionalism and Ethics Committee.

Location and Dates

The symposium will be held in Orlando as a CPE session, immediately prior to the 2004 AAA Annual Meeting. The meetings will be held in the main convention hotel, or within a convenient walking distance from the hotel.

Details for Paper Submission

One (1) copy of the completed manuscript should be transmitted as an attached Word file to the conference coordinator, Mike Shaub (mshaub@stmarytx.edu), on or before **Tuesday, April 1, 2004**. To preserve the anonymity of the review process, please remove any references to authors on the cover page and in the body of the paper. Author names and affiliations should appear in the submission letter (i.e., cover email). Please indicate with the submission: (1) the names of any co-authors that are doctoral students; and (2) if you would like the paper to be considered as well for publication in *Research on Professional Responsibility and Ethics in Accounting* OR *Accounting and the Public Interest*. The editors of both journals have graciously agreed to waive the initial journal submission fee. A nonrefundable conference paper submission fee of U.S.\$20 (made payable to the American Accounting Association) should be submitted concurrently to:

Dr. Mike Shaub
School of Business and Administration
St. Mary's University
One Camino Santa Maria
San Antonio, TX 78228-8607
Phone: (210) 431-2036
Fax: (210) 431-2115

CALL FOR PAPERS

2004 AAA Annual Meeting — August 8–11, 2004 — Orlando, Florida

Please consider submitting a paper to be considered for presentation at an auditing session of the next Annual Meeting of the AAA, to be held in August 2004. The early deadline for submission is December 15, 2003 and the final deadline is January 5, 2004. Detailed information regarding submissions is available at the AAA's website.

Also please consider volunteering to review two submitted papers. To do so, contact Mike Ettredge (mettredge@ku.edu). Specify if you prefer to review: (1) archival/empirical papers; (2) behavioral/experimental papers; or (3) analytical/math-modeling papers. Papers will be assigned to reviewers by January 12, 2004 and reviews will be due by February 16, 2004.

Finally, please consider volunteering to be a moderator or discussant at an auditing session. You can do so by contacting Mike Ettredge. Preference will be given to those volunteers who also agree to serve as reviewers.

CALL FOR PAPERS

Center for Corporate Reporting and Governance at California State University, Fullerton Corporate Reporting and Governance Conference

Theme: Improving Corporate Reporting and Governance: A Road Map for the Future

January 15–17, 2004

The Center for Corporate Reporting and Governance invites papers for presentation at its 2004 annual conference. Papers submitted should focus on the following areas:

- **Auditing**
- **Financial Accounting and Reporting**
- **International Accounting**
- **Corporate Governance**
- **Ethics**

Submission Guidelines

Each paper submission should include a separate title page listing the corresponding author's name and email address. All papers must be submitted electronically as Microsoft Word® documents to ccrg@fullerton.edu. For additional information and conference updates, please visit <http://business.fullerton.edu/ccrg>. All manuscripts are subject to a blind review process.

Upcoming Deadlines

November 7, 2003 Final deadline to submit papers and proposals for panel presentation

November 20, 2003 Acceptance/Rejection of submitted manuscripts

December 15, 2003 Early Registration

Conference Venue

The conference will be held at California State University, Fullerton, which is located in Southern California, about 35 miles south of Los Angeles. It is accessible via flights to Los Angeles (LAX), Orange County (SNA), Long Beach (LGB), and Ontario (ONT) airports. Nearby attractions include theme parks such as Disneyland, Universal Studios, Knott's Berry Farm, Sea World, and the San Diego Zoo, as well as the numerous local beaches. Additional information and directions are provided on our website.

CPE Information

CPE information will be announced after November 20, 2003. CPE sessions will be on contemporaneous accounting topics and issues. CPE program details will be posted on the website.

Conference Participation

Volunteers are needed to serve as reviewers, paper discussants, and moderators. Please send email to ccrg@fullerton.edu or contact Vivek Mande at (714) 278-7659.

Editor's Notes

The Tenth Annual International Symposium on Audit Research (ISAR) will be hosted by University Maastricht, Netherlands on July 2 and 3, 2004. More details will be available shortly—you should check the ISAR's website at <http://www.isarhq.org/index.html>.

The first paper mentioned in the "Have You Seen ...?" column is one of a series of articles by Max Bazerman and a variety of other authors involving auditor independence. These papers are fascinating, and I highly recommend them. You can find references to some of these papers at <http://www.people.hbs.edu/mbazerman/>.

While we have people who put together the "Have You Seen ...?" column, I welcome any additional input—if there's something you would like to share with readers, please feel free to send it to me.

I assign Floyd Norris' (Fridays) and Gretchen Morgenson's (Sundays) columns in *The New York Times* as required reading in my graduate auditing classes. These columns are an excellent resource for accounting- and business-related current events. You can access them at <http://nytimes.com/pages/business/columns/index.html>.

I also recommend James Surowiecki's more or less weekly column in *The New Yorker* magazine; he writes on various business issues, often with a psychology twist. For example, see "Coup de Grasso in the 10/6/03 issue (http://newyorker.com/talk/content/?031006ta_talk_surowiecki) and "The Talking Cure" in the 12/9/02 issue (<http://www.mhinvest.com/supportArticles/talking-cure.pdf>).

I am *very* open to new ideas for what should be included in *The Auditor's Report*. If anyone has any suggestions or would like to write something, please let me know (rhouston@cba.ua.edu).

The KPMG LLP and UIUC Business Measurement Research Program Program Overview and Call for Proposals

Technological, economic, social, and regulatory trends continue to present opportunities to business executives to better manage and differentiate the companies they lead through improved business model transparency. In response to these trends and opportunities, in 2002 KPMG LLP and the University of Illinois at Urbana–Champaign (UIUC) launched their *Business Measurement Research Program*. KPMG LLP and the KPMG Foundation have pledged U.S.\$2.8 million to fund research activities under the program, and both KPMG and UIUC provide additional administrative support. The program funds research by competitive processes with annual calls for proposals and by commissioning specific projects.

Program Overview and Key Features

The program seeks to advance knowledge on a broad variety of business measurement topics including risk measurement and control, business process performance, internal and external business reporting, and transparency, assurance, corporate governance, and enabling technologies. Business measurement is defined broadly under the program to include the design, implementation, and validation of financial and nonfinancial measures within the *business model* context*, i.e., management's strategies and operating environment, critical success and risk factors, business process activities, and any other decision-relevant objects and events within the entity's economic network that have or could significantly impact the entity's operational and financial results.

Important features of the program include the following:

- The reach of the program is global. Proposals are invited from research teams domiciled anywhere in the world and the program welcomes research teams with members from different geographic regions.
- The program encourages:
 - collaborative projects with teams that include both academic researchers and business managers and/or accounting professionals knowledgeable in the subject matter under study, and
 - multidisciplinary academic teams that bring different but complementary research perspectives and designs to the project.
- A variety of flexible funding arrangements are available under the program, including:
 - Direct payments to the project team members
 - Payment plans that allow funding to be provided through the employer(s).
- The amount of the typical research grant ranges from U.S.\$50,000 to U.S.\$100,000, although smaller and somewhat larger requests will be considered.
- The selection process is rigorous, enlisting multiple reviews from a panel of outside academics knowledgeable on the subject matter and the members of the Program Advisory Board (see below).

Projects Funded during Round One

During the Program's first submission period in 2003, seventy-four proposals were received requesting funds totaling approximately U.S.\$5,940,000. Twelve proposals totaling approximately U.S.\$1 million were selected for funding, with an average award of just over U.S.\$83,000. Funded topics include business model measurement and disclosure, business risk measurement, the relationship between financial performance and customer satisfaction, performance measurement and measurement-based reward systems, transfer pricing, financial-statement forecasts, and environmental measures and disclosures. Ten of the thirty-five funded researchers are domiciled outside of the U.S., which is roughly equal to the proportion of non-U.S. proposals received to total proposals received. In addition to the U.S., countries represented in the funded projects for Round One include the United Kingdom, Germany, Italy, Denmark, and Israel. Six of the twelve projects involve collaborations between the academic team and business executives. The twelve funded projects and research team members are presented in the accompanying exhibit.

In addition to the twelve projects funded under the Round One competitive call for proposals, three projects were commissioned during 2003. Topics and research team members for these three projects are: *Assessing and Managing Strategic Alignment* (Robin Cooper, Emory University), *The Rutgers Continuous Assurance and Reporting Laboratory* (Rutgers University Faculty and Doctoral Students), and *Advancing the State-of-the-Art in Hospital Patient Care Reporting* (David Sherman, Northeastern University and Joe Zhu, Worcester Polytechnic Institute).

* The business model may be thought of as a simplified representation of the network of causes and effects that determine the extent to which the entity creates value and earns profit (Bell, T.B., and I Solomon, *Cases in Strategic-Systems Auditing*, KPMG LLP, 2002, p. xi).

(continued on page 30)

Business Measurement Research Program

(continued from page 29)

Call for Proposals for Round Two

The Program is now open for the second round of research proposal submissions. All research approaches and paradigms are acceptable including modeling, experimental, archival, and field analysis applications. During Round Two the Program Advisory Board has a **special interest in receiving proposals on the linkages between business modeling and measurement and fraud detection**. Teleconferences for proposal authors are tentatively scheduled for Friday, November 21, 2003, 11:00 a.m.—12:00 p.m. U.S. Eastern time and Friday, January 9, 2004, 2:00 p.m.—3:00 p.m. U.S. Eastern time.

The submission deadline for Round Two proposals is February 1, 2004. Funding decisions for Round Two proposals will be announced as soon as the evaluations are complete, but no later than May 15, 2004. All proposals must be submitted electronically to the *Program Assistant*, Michelle Loyet, at the following email address: mloyet@uiuc.edu. Proposal text and all supporting materials must be in a single electronic file in either Word or PDF format. Multiple files or files in other formats will be returned to the authors for reformatting. Applicants who have questions about the program or proposal process should send their inquiries to Timothy Bell at tbell@kpmg.com or A. Rashad Abdel-khalik at rashad@uiuc.edu. Other inquiries should be directed to Michelle Loyet at mloyet@uiuc.edu.

The “Invitation to Submit Proposals” for Round Two and other important program information, including teleconference details, may be viewed on the program web site: <http://www.business.uiuc.edu/kpmg-uiucresearch/index.htm>.

The Program Advisory Board members are:

A. Rashad Abdel-khalik

Professor of Accountancy, Director of the Zimmerman Center, University of Illinois at Urbana–Champaign

Timothy B. Bell

Director, Assurance Research, KPMG International’s Assurance & Advisory Services Center

Martin P. Finegan

Managing Director of Strategy and Research, KPMG International’s Assurance & Advisory Services Center

Avijit Ghosh

Dean, College of Business, University of Illinois at Urbana–Champaign

D. Scott Showalter

Industry Sector Leader, Public Sector, KPMG LLP (Formerly Managing Partner of KPMG International’s Assurance & Advisory Services Center)

Ira Solomon

Robert C. Evans Endowed Chair in Commerce, Head of the Department of Accountancy, University of Illinois at Urbana–Champaign
