



# 25TH Anniversary Issue of THE AUDITOR'S REPORT

Volume 25, No.2, Spring 2002

## AUDITING SECTION/AMERICAN ACCOUNTING ASSOCIATION

### REPORT OF THE PRESIDENT

I am writing this report the day after President Bush's State of the Union address. I have not checked with the Section's Historian, Andy Bailey, but I think it very likely that this was the first State of the Union address that referred to accounting and auditing. The aftermath of the Enron collapse provides us with the opportunity and responsibility to contribute more to our profession.

It is certainly easier to hold students' attention in my undergraduate auditing classes. The class discussion of the meaning and implications of reasonable assurance was more animated than normal! We also have a responsibility to help students put the recent events, and especially the related press reporting, into perspective. For example, my students were

surprised to learn that document shredding occurs on all audit engagements, so before we pass judgment on Enron's auditors we need to determine what documents were shredded.

The Enron-induced buzz in my auditing classes was also evident at the Midyear Conference in Orlando. Especially after the 25th anniversary conference last year in Houston, it is hard to claim that the Conference keeps on getting better, but that seemed to be the consensus of this year's participants (and 270 in number almost matched last year's record attendance). More details about the Midyear Conference appear elsewhere in *The Auditor's Report*, but a special thanks to Jeff Cohen and his committee for a very successful conference. Thanks also to Dan Simunic for another successful doctoral consortium. The near-capacity attendance of 34 students is a promising sign for our future.

The Conference began with the plenary address by Kathy Eddy, immediate past chair of the AICPA board of directors. Chair of the AICPA board of directors is a full-time, but unpaid, voluntary position. As she is one of just three partners in a small firm, Kathy's strong commitment to the profession and her willingness to sacrifice for the profession were not lost on the audience. The title of her speech was "What Role Should Academia Play in Updating the Financial Reporting Model?" She asked that we get more involved in the work of the AICPA and its various task forces and that, in particular, these task forces need our research. So does the ASB, which has many projects in the pipeline. She emphasized that auditing was the cornerstone of the profession.



*E. Michael Bamber*

The current relevance of our research was evidenced by sessions covering, for example, evaluation of financial reporting quality, auditor-provided nonaudit services, auditor litigation risk, evaluation of audit judgments, auditor dismissal and client acceptance, auditor independence, and audit committees and audit fees. In addition to sharing our own research, the Midyear Conference plays an important role in informing us of what is relevant and topical. To that end, there were panels on recent developments in assurance services, auditors' interactions with boards and audit committees, auditing standards research opportunities, and e-assurance.

Ray Whittington, the academic member of the ASB, moderated the Auditing Standards Research Opportunities panel. I was very pleased to hear panelist John Fogarty, member of the ASB and co-chair of the Joint Risk Task Force, compliment the academic members of the fraud task

*(Continued on page 2)*

#### SUMMER 2002 ISSUE DEADLINE

The deadline for material to be included in the Summer 2002 issue of *The Auditor's Report* is May 1, 2002. The preferred, but not mandatory, format is Word files attached to email messages. Please send all material to the Editor at the address below by May 1, 2002 to ensure timely publication of the issue:

Mark H. Taylor  
School of Accounting  
Moore School of Business  
University of South Carolina  
Columbia, SC 29208  
Phone: (803) 777-4387  
Fax: (803) 777-0712  
mhtaylor@darla.badm.sc.edu

The address of the Auditing Section's Home Page  
on the World Wide Web is:  
<http://raw.rutgers.edu/raw/aaa/audit/>

---

## President's Report

(Continued from page 1)

force—Mark Beasley and Zoe-Vonna Palmrose—and recognize the role that academic research has played in their deliberations.

Another of the Section's important functions is to facilitate communication between academia and practice. Chaired by Kay Tatum, the Section's Auditing Standards Committee has been particularly active in communicating with standard setters and highlighting the latest auditing research relevant to their deliberations. The Committee prepared a review of the fraud literature for the ASB's Fraud Task Force. The Committee as well as individual Executive Committee members have provided the ASB and SEC with comment letters on their recent initiatives.

The Auditing Standards Committee's work on fraud led to *The Auditor's Report's* special issue on fraud detection (Winter 2001). This special issue has a wealth of fraud-related information for generating research ideas and for classroom use. The Committee will also email Section members when the ASB issues exposure drafts based on the work of the Fraud Task Force and Risk Assessment Task Force.

As another example of the Section's outreach to practice, President-Elect Joe Carcello will be assembling an Auditing Section task force to monitor and comment on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) enterprise-wide risk management project.

One of the most important things we do at the Midyear Conference is present awards recognizing excellence among our colleagues. The Section has four annual awards. This year congratulations go to Barry Cushing (University of Utah) for the Outstanding Educator Award, Lynford Graham (BDO Siedman, LLP) for the Distinguished Service in Auditing Award, Mark Beasley (North Carolina State University) for the Notable Contribution to Auditing Literature Award, Jeff Wilks (Brigham Young University) for the Outstanding Auditing Dissertation Award, and Bob Libby (Cornell University) as Jeff Wilks' dissertation chair. You can read more about this year's winners elsewhere in the newsletter. Again I want to thank the selection committees for their efforts in selecting such worthy award recipients.

I am pleased to announce that the Executive Committee has approved a new award, the Innovation in Auditing and Assurance Education Award. You can read more about this award and the nomination process for this and the Section's other awards in the newsletter.

The Executive Committee meeting and Section business meeting in Orlando received interim reports from the Section's standing committees. Let me highlight just a few of these committees' many activities. The Communications Committee is examining the case for a change in the name of the Section and the potential for a web-based practice-oriented journal. Last year the Membership and

Regional Coordinators Committee surveyed 144 former members of the Auditing Section. The majority reported that changes in teaching and research interests lead to their departure from the Section. However, some reported that they had hoped to receive more support for teaching. The committee is working on ways to increase the teaching support provided at regional meetings. The Education Committee is working on (1) a survey of assurance services education practices, and (2) increasing the education-focused sessions at the Midyear Conference.<sup>1</sup> Finally, the Research Committee is continuing its work on the auditing research database. Specifically, the references from the Microsoft Word file have been moved to the reference database program endnote. The Committee is also updating the references. Expect to hear more about the reference database in the next issue of *The Auditor's Report*. I want to thank the chairs and members of these committees for their outstanding work for the Section and its members. Contact information for Committee Chairs and Executive Committee members is available on the Section's web site.



*Kathy Eddy, immediate past chair of the AICPA, addresses meeting attendees about the need for collaboration on a new financial reporting model*

Of the other items on the Business Meeting's agenda, I want to mention five. First, an important part of prior meetings was the election of officers. For the first time, we held this year's election online, and 330 members voted. The Executive Committee deemed this first online election a success. Thank you to those of you who voted. For those who didn't vote last year, please remember to vote this year! The winners were publicly announced at the Business Meeting. Congratulations go to Jean Bedard (Northeastern University) Vice President—Academics and President-Elect, Bill Dilla (Iowa State University) Secretary, and George Krull (Grant Thornton LLP) Vice President—Practice. The call for nominations for next year's open positions also appears in this newsletter.

Second, Rick Tubbs' treasurer's report containing the Section's Statements of Cash Receipts, Disbursements, and Cash Balance shows a significant drop in the Section's cash balance, and reflects a structural cash flow deficit that the Section has had for some time. As a result, the Executive Committee proposed at the Business Meeting that dues be increased to \$35 to cover the structural deficit and help rebuild the Section's cash balance. The proposal passed unanimously.

The third item is Randy Elder's report as the 2002 Annual Meeting Committee Director and Section Liaison. Randy reported that Auditing Section submissions of 77 papers were up slightly from last year's 72, while total submissions of 626 were down

(Continued on page 3)

## President's Report

(Continued from page 2)

from 676. Randy indicated that the AAA's electronic submission and review process seems to be working well.

Fourth, Arnie Wright's editor's report appears in this newsletter. The number of submissions, turnaround time, and number of articles published reflect the great commitment of Arnie and his associate editors, Jane Mutchler and Ken Trotman. Arnie and incoming editor Bill Messier (Georgia State University) talked about the steps they will undertake to ensure a smooth transition. I am sure that we can expect a similar performance from Bill and his associate editors, Mark DeFond (University of Southern California), Rick Tubbs (The University of Iowa), and Hun-Tong Tan (Nanyang Technological University).

The last item I want to mention is that this is the 25th anniversary of our newsletter, *The Auditor's Report*. Given the substantial content of *The Auditor's Report*, calling it a newsletter is probably a disservice. Because of the hard work of our current editor Mark Taylor, and the editors before him, *The*

*Auditor's Report* is a wealth of information and a valuable resource for members. Mark has also done a great job in overseeing the conversion from hardcopy to electronic version of the newsletter.

Especially for those of you who could not join us at this year's Midyear Conference, I hope this report gives you a sense of how much is happening in the Section. Despite the current controversy surrounding accounting and auditing, the Section is strong and committed to serving its members and supporting the profession. With a total of 17 committees, a lot of people are making real contributions behind the scenes. Thank you all.

<sup>1</sup> I am hesitant to categorize sessions as research- or teaching-oriented because both activities are symbiotic; nevertheless, I want to note that two sessions at this year's Midyear Conference had a strong teaching focus: "Recent Developments in Assurance Services: Opportunities for Research and Teaching," and "Attracting Students to Assurance Services: Innovative Approaches."

## CALL FOR PAPERS

### NINTH ANNUAL MIDYEAR AUDITING SECTION CONFERENCE

The Ninth Annual Midyear Auditing Section Conference will be held in **Huntington Beach, California on January 16–18, 2003**. CPE sessions will be held on the afternoon of January 16. The remainder of the conference will consist of keynote, plenary, and concurrent sessions dealing with a wide variety of contemporary topics related to audit, attestation, and assurance practices, education, and research. You are encouraged to contribute to the program through submissions of auditing/attestation/assurance research and education papers, and special session proposals.

The conference will be held at the **Hilton Waterfront Beach Resort** in Huntington Beach, California. Located in Orange County between Los Angeles and San Diego, this hotel is a Four Diamond Resort with 290 ocean-view rooms. There are many nearby attractions such as Disneyland, Knott's Berry Farm, the Aquarium of the Pacific, and the Queen Mary, along with the local shopping areas of Fashion Island and South Coast Plaza.

#### SUBMISSION GUIDELINES

Research papers should follow the style guidelines of *AUDITING: A Journal of Practice & Theory*. Submissions are not eligible for consideration if they: (1) have been published or accepted for publication, (2) were presented at the 2002 AAA Annual Meeting, or (3) were presented at more than one AAA regional meeting or other academic conference. Papers presented at the Research Forum of the AAA Annual Meeting are eligible for consideration. It should be noted that papers accepted for presentation at the 2003 Midyear Auditing Section Conference may also be submitted for presentation at the AAA Annual Meeting scheduled for August 2003.

#### SUBMISSION DEADLINE

Submission should be made by email (see *AJPT* guidelines) to **rjrams2@uky.edu** or by mailing a diskette to:

**Robert J. Ramsay**  
Von Allmen School of Accountancy  
355 Gatton College of Business and Economics  
University of Kentucky  
Lexington, KY 40506-0034  
Phone: (859) 257-3702  
Fax: (859) 257-3654

Submissions must be received by **September 1, 2002**, to be considered for the program. Early submission is highly encouraged. Any questions should be addressed to Robert J. Ramsay via email.

---

# The 25th Anniversary of *The Auditor's Report*

Mark H. Taylor  
Editor, *The Auditor's Report*

Last year the Auditing Section celebrated its 25th year as part of the American Accounting Association. This edition of *The Auditor's Report* commemorates the newsletter's 25th anniversary. *The Auditor's Report* has retained its name for the duration of its existence and has been a very important outlet for Auditing Section news, Association events, and updates on the profession. Many individuals have contributed to our newsletter's mission, and I thought it would be interesting to compile some comments from previous editors. Specifically, what follows are our previous editors' reflections on their service, the growth of the section, and the role the newsletter has played during that time period. I am very grateful that all of our previous editors agreed to participate. Their comments follow in order of their time as editor.

\*\*\*\*\*

It's hard to remember the American Accounting Association at the time *The Auditor's Report* was started. There were no sections in the Association prior to 1976. In that year, the Auditing Section, along with three other sections, came into being. There had been lots of debate as to whether allowing sections to form in the AAA would splinter and weaken the organization. Auditing itself was not one of the more popular areas for teaching and research so those of us involved thought it was time to focus some attention on this important part of our discipline. Subsequently, KPMG started its program of funding auditing research that stimulated significant interest among academicians in the field.

My first job as editor of the Auditing Section newsletter was to find a name for it. After talking with a few people and not getting anything that I thought was appropriate, I took the plunge and christened it with the title that has remained for 25 years! There were no models for section newsletters and the editor not only developed the copy but also was responsible for getting it printed. The first copy was a far cry from the polished publication section members receive today. There was a tremendous rush to get an issue out and the result, by today's standards, looked pretty crude. I cannot recall whether I was provided with labels and mailed the newsletter myself or whether I sent it to the Association for mailing. One thing that probably has not changed is getting contributors to the newsletter issue to get their materials to you to meet publication deadlines!

With the financial fiascos of recent periods, including Enron, the tremendous importance of the audit function has been re-emphasized. Members of the Auditing Section must continue to provide the auditing profession with both well-prepared individuals who have a strong grounding in ethics, and research that supports a more effective audit function. One way to do the latter is to contribute dialogue and commentary to *The Auditor's Report*.

Corine T. Norgaard  
University of Hartford  
Founding Editor, 1976–1977

\*\*\*\*\*

I am forever grateful to then Section President Jack Robertson for inviting me to be the editor of *The Auditor's Report*. Reflecting back on those years reminds me of the most fun and exciting experiences of my career. I was part of a new wave of auditing enthusiasts who had spawned a fledgling section just a few years before. During my three years as editor, the section's membership nearly tripled to over 1,200 members and its forward momentum created many exciting opportunities for auditing educators. As the section's primary communication medium, so to speak, *The Auditor's Report* ingested much of this enthusiasm and excitement as all this "good news" passed through its pages on the way to section members—over 50 percent of which, by the way, were practitioners at that time.

Some of the more memorable items that the newsletter carried during my time as editor were the creation of the section's new journal, information about auditing conferences and CPE seminars, Peat Marwick Mitchell "Research Opportunities in Auditing" grant recipients, the establishment of the Distinguished Service in Auditing Award, new auditing professorships, and innovative classroom tools and materials. The pages of the newsletter were literally burgeoning with the trappings of a very "spirit and soul" of the "auditing movement," and as newsletter's editor at the time, I was simply along for the ride.

Jack Krogstad  
Creighton University  
Editor, 1978–1980

\*\*\*\*\*

I was editor of *The Auditor's Report* during the presidencies of Bill Felix, Jim Loebbecke, and Joe Schultz. Reviewing issues of newsletter from that period reminded me of how far our discipline has progressed. For example, in the Summer 1982 issue, Andy Bailey opined on Accounting accreditation while in a later issue Bob Roussey, then an Andersen partner, informed us that "the micro-computer is the game." And many others shared substantive essays with the readers. All of them were a pleasure to work with—and they seemed to understand the importance of deadlines! Preceding, during, and subsequent to this period *The Auditor's Report* has

(Continued on page 5)

---

## The 25th Anniversary of *The Auditor's Report*

(Continued from page 4)

contributed significantly to the effective communication between the Section and its members. I encourage members to continue to contribute to the future success of the Section via items you send to the editor.

Gerald Smith  
University of Northern Iowa  
Editor, 1981–1983

\*\*\*\*\*

It's truly hard to believe that I was editor of *The Auditor's Report* over 15 years ago; time flies by. I agreed to be editor of this publication because it serves a vital function for the members of the Auditing Section. It is the communication vehicle by which the section informs its members of the section's activities, significant issues in practice, current auditing research, educational innovations, and upcoming events. *The Auditor's Report* is read by more members than any other publication produced by the Auditing Section. In a sense, it is the "glue" that holds the section together.

Some interesting events occurred while I was editor. We instituted the "ASB Update" column at this time to provide members with information about agenda items of the Auditing Standards Board and related research opportunities. A significant concern I had then, and continue to have, is the limited communications between auditing professors and practitioners. To further address this concern, I promoted articles that reviewed auditing research in a clear, concise manner and that identified practitioners' views of significant issues they face. To save costs I remember anguishing a great deal about the paper stock to use. One issue went out that was not glossy and of thinner bond. This proved to be quite unpopular, and we immediately reverted back to the traditional "user friendly" paper...the trials and tribulations of an editor.

Arnie Wright  
Boston College  
Editor, 1984–1985

\*\*\*\*\*

Thank you for the opportunity to participate in the commemorative article for volume 25 of *The Auditor's Report*. I simply wish to say, having retired in June 1998, that I enjoyed working with various section members in producing *The Auditor's Report* and consider the experience one of the privileges of my career. The newsletter was then and is now a vital source of important information to section members.

Dennis Kimmell  
The University of Akron  
Editor, 1986–1988

\*\*\*\*\*

*The Auditor's Report* is a unique forum because it is an easy-to-read synopsis of key events, recent publications of interest, standard-setting developments, peer recognition for a number of leadership positions and awards, and essays directed to areas of research, educational challenges, practice developments, and case scenarios. Long before my editorship, I had contributed articles to the newsletter reflecting research streams in which I have been actively involved throughout my career.

I enjoyed my editorship of the Section's newsletter because it provided me with an opportunity to reach out to our members and share candid photographs of various meetings, essays such as David Tweedie's discussion of international auditing issues associated with the then hot questions as to whistle-blowing responsibilities, and thorough coverage of diverse literature bases by our column editors who did our literature review. I remember that as I extended invitations to our members domestically and abroad to prepare essays for the newsletter, they were always happy to do so and timely in their input. As editor, I also had the pleasure of authoring content, and I received feedback on many of the articles that were included in the newsletter during my term as editor. I believe that speaks to the usefulness of the forum as a resource for both research and teaching.

Insofar as humorous anecdotes, the only one that comes to mind relates to the very real challenge of having the right number of pages front and back to lay out the physical appearance of the newsletter to both look professional and stay within the printing and mailing budget. At times this required propitious selection from among competing photographs, attempts to rearrange article continuation, and the unavoidable outcome—at times—of disjointed expositions...The joys of coordinating intent with the printed word. It was a pleasure working with the Publications Office at the Association. We did have to grin and bear those times when production decisions made our best laid plans go awry!

I encourage all of the members of the Auditing Section jump at a chance both to contribute to the newsletter, and if asked, to join those of us who have had the pleasure of being the editor for this indispensable publication.

Wanda Wallace  
College of William and Mary  
Editor, 1989–1991

\*\*\*\*\*

(Continued on page 6)

---

## The 25th Anniversary of *The Auditor's Report*

(Continued from page 5)

I recall receiving a call from Wanda Wallace who asked me to serve as the editor of *The Auditor's Report*. As a new Ph.D. from a small program (Union College), I saw this as an excellent opportunity to get involved in one of the most important sections of the American Accounting Association. In the early days, I recall having difficulty getting the more seasoned auditing researchers and luminaries in our section to contribute to the newsletter. So, I decided to go after other relatively inexperienced scholars like myself. It was truly a wonderful experience.

In 20/20 hindsight, I'm sure I could have done the job better as editor. In particular, I wish I had made a stronger connection to business and industry, especially on emerging issues. Having served as a partner with PricewaterhouseCoopers and now as the CEO of a private company (Privacy Council), I see that there were significant opportunities to establish *The Auditor's Report* as a link to emerging auditing issues. Example topics might include auditing new privacy and information security requirements, accounting ethics in the wake of Enron, and much more.

Larry Ponemon  
Privacy Council  
Editor, 1992–1994

\*\*\*\*\*

When Mark Taylor asked me to prepare a short article looking back on my term as editor of *The Auditor's Report*, he asked that I consider activities in the world-at-large during that period, as well as within the Auditing Section. My term extended from 1995 to 1998, and included the Presidencies of Arnie Wright, Jane Mutchler, and Barry Cushing. When I thought back to world happenings in 1995–1998, I had difficulty recalling specific events (however, I do vaguely remember that stock prices were rising!). I went to the web for help, and found several interesting items that I must have missed at the time—for instance:

“POLICE BEGIN CAMPAIGN TO RUN DOWN JAY WALKERS”  
“SAFETY EXPERTS SAY SCHOOL BUS PASSENGERS SHOULD BE BELTED”  
“DRUNK GETS NINE MONTHS IN VIOLIN CASE”  
“BRITISH LEFT WAFFLES ON FALKLAND ISLANDS”  
(...and some others unfit for a family newspaper!)<sup>1</sup>

Our headlines in *The Auditor's Report* during that period (while not as striking as those noted above) are reflective of activities on multiple fronts that were taking place within the Section at that time. Many of the articles published during my term related to two broad areas of interest that continue to be important today: the globalization of accounting and auditing, and technological innovation. On the topic of globalization, we published articles relating to audit education in Europe, auditing research opportunities in Australia and in Europe, challenges for the auditing profession in the Hong Kong area, international auditing standards, and accounting and auditing in developing countries.

Taken together, the articles of that time were very informative regarding the shifts toward global integration of the auditing profession, and toward increasing use of technology in decision making, which occurred during the mid-1990s. *The Auditor's Report* provides an important vehicle for communication among Section members. There is really no other outlet for publication of thought pieces that address such a wide audience of leaders in the auditing profession. I am pleased to have served as the editor of such an important Section publication. I thank the individuals who contributed to *The Auditor's Report* during my term, the Section officers with whom I served, and the personnel on the AAA staff who helped produce the issues.

Jean Bedard  
Northeastern University  
Editor, 1995–1997

---

<sup>1</sup> In the interest of full disclosure, these are supposedly real headlines appearing in newspapers in 1995, taken from the following web site: <http://www-eksl.cs.umass.edu/~schmill/headlines.html>. I have not verified the accuracy of this claim—perhaps an assurance service is needed!

\*\*\*\*\*

The purpose of *The Auditor's Report* is to connect the 1,600 plus section members with important information relevant to the profession and the Section. For example, calls for papers and program information for upcoming conferences, and important announcements from officers or the editor of *AUDITING: A Journal of Practice & Theory*. Of course, it provides a setting for the section President to communicate his or her thoughts, and for the Academic Member of the ASB to report the latest developments in that area. Perhaps less obviously, but maybe more importantly, the newsletter provides a forum for section members to share their thoughts on the developments in audit practice, teaching, and research. This is an area where, in my opinion, the opportunity for exchange of ideas is under-utilized. During my term as Editor I invited such contributions and appreciate those who prepared essays and comment papers for inclusion in the newsletter. I enjoyed my term as editor and encourage Section members, especially those who have not taken the opportunity to do so, to contribute to the progress of the Section by submitting an article to *The Auditor's Report*.

Gary Braun  
The University of Texas at El Paso  
Editor, 1998–1999

\*\*\*\*\*

(Continued on page 7)

---

## The 25th Anniversary of *The Auditor's Report*

(Continued from page 6)

I first became involved with *The Auditor's Report* in 1998 when I was invited to be an editor for the "Have You Seen...?" column. I looked at the opportunity as a way to provide some service to the section in the course of keeping current with auditing research. After one year of that, I was invited to be the associate editor, and worked with Gary Braun for the next year, before being invited to be the editor. I have continued in the tradition of the previous editors in attempting to make the newsletter as informative as possible by inviting contributions from Section members on emerging issues in teaching, research, and practice. One of the significant challenges during the first year was the timing of the release of the newsletter. For a number of reasons the lag between submission deadlines and getting the newsletter into the hands of the members kept growing, principally because of printing issues. Most of those challenges were resolved when for the Fall Issue, 2001, we went to online-only distribution of the newsletter. Hopefully, members have noticed improved timing of distribution, despite the fact that if they wish to have a printed copy, they must print it locally.

*The Auditor's Report* is a vital link between Section activities and Section members. It is unique in that the newsletter provides space for members to express opinions, exchange ideas, and distribute material of interest to the Section. At the 2002 Midyear Meeting in Orlando, I gave some brief comments about the newsletter and invited Section members to submit essays, teaching and research reports, or other items of interest. At that time, I expressed that the newsletter's 97.8 percent acceptance rate may be daunting to some, but that timely material would receive due consideration! Please consider making a contribution to the Auditing Section by submitting articles of interest to *The Auditor's Report*. The success of the newsletter has come from the willingness of Section members to contribute essays and other articles. And over 25 years so many individuals have made contributions. What follows below is a list of all of the individuals who have made such contributions to the newsletter over the last 25 years. You might be as surprised as I am to see how lengthy the list is. I have made every effort to ensure completeness of the list, and apologize in advance for any omissions. I express appreciation to the previous editors of *The Auditor's Report* for taking the time to contribute to this issue, to the Section Historian, Andy Bailey, for assisting in preparing the list below, and on behalf the Section, express appreciation to all of the many individuals who have helped make the newsletter such an important part of the Auditing Section during the last 25 years.

Mark Taylor  
University of South Carolina  
Current Editor

### Past Contributors to *The Auditor's Report*

Abdolmohammadi, Mohammad; Akresh, Abraham; Anderson, Urton; Arens, Alvin; Asare, Stephen; Atkinson, Kevin; Baggett, Walter; Bailey, Andrew; Bamber, E. Michael; Beasley, Mark; Bedard, Jean; Bell, Timothy; Berton, Lee; Bierstaker, James; Biggs, Stanley; Bishop, Toby; Borthick, Faye; Braun, Gary; Braun, Robert; Brink, Victor; Butler, Steven; Carcello, Joseph; Chandler, John; Churchill, Neil; Clay, Raymond; Cushing, Barry; Dalton, John; Davis, Charles; Denham, John; DeZoort, Todd; Dittenhofer, Mortimer; Duncan, Candace; Dunn, John; Elliott, Robert; Etherington, Lois; Ettenson, Richard; Felix, William; Finn, Don; Flamson, Jack; Friedlob, Thomas; Gelinias, Ulric; Gordon, Irene; Graham, Lynford; Gramling, Audrey; Grant, Jonathan; Guy, Dan; Hendricks, James; Hermanson, Dana; Holstrum, Gary; Hyatt, Troy; Jacobson, Peter; Johnson, Alan; Joscelyne, Graham; Schultz, Joseph; Kelly, Margaret; Kimmel, Dennis; Knechel, Robert; Kogan, Alexander; Koster, Frank; Krogstad, Jack; Lampe, James; Landsittel, David; Larson, Gaylen; Lemmon, W. Morely; Leonard, Jeanine; Levy, Elliott; Lin, Thomas; Loebbecke, James; Louwers, Timothy; Luton, James; Maher, Michael; Maijoor, Steven; Maletta, Mario; Mautz, Robert; May, Robert; Mayper, Alan; McCullough, Richard; McKee, Thomas; Mechenzi, Alfred; Messier, William; Meuwissen, Roger; Michenzi, Alfred; Mitchell, John; Mock, Theodore; Moriarity, Shane; Mullarkey, John; Mutchler, Jane; Myles, Carol; Neumann, Frederick; Oliverio, Mary Ellen; Palmrose, Zoe-Vonna; Pany, Kurt; Parker, Larry; Pearson, Timothy; Peecher, Mark; Pincus, Karen; Ponemon, Larry; Prawitt, Douglas; Quadackers, Luc; Reed, Brad; Reisch, John; Rieffel, Alicia; Rittenberg, Larry; Roberts, Andrew; Robertson, Jack; Robinson, Thomas; Roohani, Saeed; Roussey, Robert; Sack, Robert; Sadowski, Thomas; Salterio, Steven; Sanders, Howard; Sardinias, Joseph; Schiff, J.B.; Seidler, Lee; Shanteau, James; Shenkir, William; Simnett, Roger; Smith, Gerald; Smith, Jay; Smith, John; Snowball, Doug; Solomon, Ira; Srivastava, Rajendra; Stettler, Howard; Stewart, Margaret; Streit, Irva Kay; Stringer, Kenneth; Sullivan, Jerry; Sutton, Steve; Tatum, Kay; Taylor, Mark; Thibodeau, Jay; Tidrick, Donald; Trompeter, Greg; Tsui, Judy; Typpo, Eric; Vaassen, Eddy; Wallace, Wanda; Ward, Bart; Ward, Dewey; Warren, Carl; Weber, Cathy; Wendell, John; Whittington, Ray; Williams, David; Willingham, John; Wilson, David; Wilson, Peter; Wright, Arnold; Wright, Sally; Yates, Robert; Zeff, Stephen; Zimbelman, Mark.

\*\*\*\*\*

## 2002 AUDITING DOCTORAL CONSORTIUM

The third annual Auditing Doctoral Consortium was held the day before the Midyear Auditing Section Conference at the conference hotel in Orlando, Florida. The Auditing Section and KPMG International sponsored the event. Thirty-four students attended.

The purpose of the consortium was to stimulate students' research by: (1) exposing them to the very latest ideas from leading researchers in auditing, and (2) providing opportunities for networking with other Ph.D. students, established auditing researchers, and editors of journals that publish auditing research. The program included faculty presentations related to different research paradigms in auditing by Joe Carcello, Ron King, Mike Stein,

and Steve Salterio, and an editor's panel that consisted of Linda Bamber, Jesse Dillard, Dan Simunic, and Arnie Wright, with an "author's perspective" preamble provided by Mark DeFond. Bernie Milano from KPMG attended part of the

consortium. In spite of the intensity of the program that covered a time period of nine hours including breaks and lunch, participants judged the consortium to be a success in terms of achieving its purpose. Most students also attended the Midyear Conference. The consortium's planning committee was composed of Dan Simunic (chair), Mark DeFond (chair-elect), and Rick Tubbs (past chair).

Next year's planning committee is chaired by Mark DeFond.



*Participants of the 2002 Doctoral Consortium which preceded the 2002 Midyear Meeting*

---

### A Commentary on the Auditing Doctoral Consortium

**Charles Bame-Aldred**

**Doctoral Student, University of Massachusetts Amherst**

On January 17, 2002, I attended the third annual Auditing Doctoral Consortium conducted by the American Accounting Association at the Royal Plaza Hotel in Orlando, Florida. While participating in the various presentations on auditing research, I realized I had attended each auditing consortium since its inception in 2000. I wanted to share some thoughts about the benefits of the auditing consortium.

Since January 2000 I have had the privilege to hear many distinguished faculty members discuss their research interests. Ron King, Rachael Schwartz, and Dan Simunic discussed experimental economics research in auditing. Mark Peecher, Ira Solomon, and Steve Salterio presented their views on behavioral research in auditing. Bill Kinney, Steve Kachelmeier, Rick Tubbs, Joe Carcello, Mark DeFond, and Mike Stein all presented their research before an eager group of 30 plus Ph.D. students. In addition, the journal editors from *Contemporary Accounting Research*, *The Accounting Review*, and *AUDITING: A Journal of Practice & Theory* provided their advice for building a successful record of publication.

One of the primary benefits of attending the doctoral consortium is exposure to a wide variety of talented researchers from different methodological disciplines. Doctoral students who attend are privileged to hear presenters discuss their assessment of the literature and stimulate discussion about future research topics. For most students, finding a dissertation topic is a significant undertaking. The original idea for my dissertation came in part from a presentation that was made at the consortium. The opportunity to listen to discussion leaders of the caliber who are invited to the consortium increases the potential of developing a dissertation topic and/or other researchable ideas. In addition, the presenters are typically very willing to further discuss issues of interest to students about different research topics when the consortium concludes.

However, there is more to the consortium than finding a dissertation topic and learning the ropes of the publication process. The auditing doctoral consortium brings together students from different schools with similar research interests, providing opportunities to meet and get to know one another. These associations can lead to friendships and professional associations that may continue for many years. Over time, such contacts could lead to the co-authoring of research. I met two of my best friends at the consortium and we have continued a friendship for three years and just recently began working on research together. The transition from student to faculty will be facilitated by having good co-authors in tow.

The Auditing Section conducts the consortium for the benefit of those students interested in conducting research in auditing and assurance services. Consortium organizers have provided this opportunity to Ph.D. students to learn from outstanding faculty in the Section who donate their time and energy to help all students become better researchers. In return, the Auditing Section needs young academics to get involved and stay involved. A great place to begin such involvement is at the consortium next January and to there establish associations that could last a lifetime.

## 2002 Midyear Auditing Conference Held in Orlando, Florida

The 2002 Midyear Meeting was held in Orlando, Florida on January 17–19. The Program Committee was chaired by Jeff Cohen (Boston College), and 270 participants attended the conference. A record 92 submissions were received and 48 papers were presented at 15 concurrent paper sessions and five research roundtables. In addition, 5 panels were held as well as a doctoral consortium headed up by Dan Simunic. The tone of the conference was set by Kathy Eddy, the immediate past chair of the



*Members participated in a new “Research Roundtables” event at the 2002 Midyear Meeting*

AICPA who spoke about the need for academe and practice to collaborate on a new and more relevant financial reporting model. The news surrounding the events at Enron permeated the tone and tenor of many of the sessions and only underscored the importance of conducting timely and rigorous research. Fortunately, many of the papers and panels dealt with issues of corporate governance and auditor independence. We hope to see all of you at next year’s conference to be held at Huntington Beach, California.

---

### CALL FOR NOMINATIONS

## Notable Contributions to the Auditing Literature Award

The Auditing Section seeks submissions for the Notable Contributions to the Auditing Literature Award. The award will recognize a published work of exceptional merit that has made, or has the potential to make, a direct contribution to auditing or assurance research, education, and practice. To be eligible for submission, a work must have been published during the ten-year period ended December 31, 2001, and at least one of the authors of the published article, chapter, book, or monograph must be a current member of the Auditing Section. Selection of the award winner will be made by the Auditing Section’s Notable Contributions to the Auditing Literature Award Committee. The award is presented at the 2003 Midyear Meeting of the Auditing Section.

A work may be submitted either by the author or another individual with an interest in auditing research, education, or practice. Submissions must include five copies of (1) a nomination letter stating why the work is deserving of special recognition, and (2) the submitted work. Submissions should be sent by July 1, 2002 to:

**Professor Joseph V. Carcello**  
University of Tennessee  
601 SMC  
Knoxville, TN 37996-0560  
Phone: (865) 974-1757  
Fax: (865) 974-4631  
Email: [jcarcell@utk.edu](mailto:jcarcell@utk.edu)

---

### CALL FOR NOMINATIONS

## Distinguished Service Award in Auditing

The Distinguished Service in Auditing Award Selection Committee is seeking nominations from the Section’s membership for the award to be given at the Auditing Section Midyear Conference in January 2003. This award recognizes outstanding and sustained service to the profession or the Auditing Section. The distinguished careers of past recipients of the award (Bob Roussey, Dave Landsittel, Jerry Sullivan, Don Leslie, Ken Stringer, Robert Mautz, Robert Elliott, W. W. Cooper, Jim Loebbecke, John Willingham, Jay Smith, William Kinney, Fred Neumann, Bob Sack, Dan Guy), and members of the first Practice Advisory Council (Tom Powell, Chair) represent the type of contribution to the profession that exemplifies this recognition. Nominations should be sent by July 1, 2002 to:

**George Krull**  
Grant Thornton  
Phone: (312) 602-8109  
Email: [gkrull@gt.com](mailto:gkrull@gt.com)

---

# AWARDS PRESENTED AT THE 2002 MIDYEAR AUDITING CONFERENCE IN ORLANDO, FLORIDA

## 2002 Distinguished Service in Auditing Award Presented by Abe Akresh, Vice President–Practice

The 2002 Distinguished Service in Auditing Award was presented to Lynford Graham. This award recognizes exemplary service to the Auditing profession or the Auditing Section and scholarly contributions to the field of auditing. Criteria for the award are outstanding career achievements over a 20–25 year period that have a lasting and significant impact on the field of auditing, as evidenced by service to the Auditing profession, or the Section or by significant contributions in scholarship. The recipient is selected from among nominations from Section members a by a committee consisting of Abe Akresh (VP–Practice, Chair), Fred Neumann, Tom Powell, Bob Roussey, and Bob Sack. Dr. Graham has had a distinguished career in both academia and public accounting, having served the profession, the Auditing Section, and individual firms and universities. As the Director of Audit Policy for BDO Seidman, LLP, he is responsible for the development and implementation of audit policy and software, as well as Assurance Services Learning and Education programs, and is the Firm’s Sampling Coordinator. Dr. Graham is a member of the Auditing Standards Board, and previously chaired the Educator-Practitioner Case Development Task Force for the annual AICPA Education Conference. He has served on the Executive Committee of



*Abe Akresh presents Lynford Graham with the 2002 Distinguished Service in Auditing Award*

the Pre-Certification Education Committee, and also served as a member of the AICPA’s (SAS No. 47) Materiality and Audit Risk Task Force. Dr. Graham was a founding member of the AICPA’s Information Technology Section, serving on its Executive Committee, and was a member of the AICPA’s Statistical Sampling Subcommittee during the development of SAS No. 39 on Audit Sampling. He also chaired the AICPA’s Quantitative Methods Task Force researching Analytical Procedures. His numerous academic and business publications include information systems, audit risk, sampling, analytical procedures, audit judgment and international accounting and auditing. He served as Vice Chairman–Practice of the Auditing Section, and as a member of numerous committees and task forces. He had a leadership role in the development of the award-winning “Excellence in Audit Education” materials, widely used in university audit courses. He is the past Auditing Section Chair for the Mid-Atlantic Section of the AAA, is a member of the AAA’s Practice Advisory Committee, and has served on the editorial boards of *AUDITING: A Journal of Practice & Theory*, *Accounting Horizons*, *Issues in Accounting Education*, and other publications. Dr. Graham holds a Ph.D. from the University of Pennsylvania (Wharton School).

## Outstanding Dissertation Award Presented by Mohammad J. Abdolmohammadi, Bentley College

The 2002 Outstanding Auditing Dissertation Award was presented to Dr. Jeffrey Wilks of Brigham Young University. Dr. Robert Libby of Cornell University was also recognized as the dissertation chair. The Auditing Section began presenting this award on an annual basis to the author of the outstanding dissertation in 1988, and added the outstanding dissertation chair recognition in 1996. The criteria for the award are: the timeliness and importance of the problem(s) addressed, the creativity of the research, the development of an appropriate theoretical framework, the appropriateness of the research method and analysis, the potential for



*Mohammad Abdolmohammadi presents Jeff Wilks with the 2002 Outstanding Auditing Dissertation*

publication in a scholarly journal, and the potential for the results to have an impact on the practice of auditing. The Section solicits nominations from the membership by July 1 of each year and presents the award at the following Midyear Meeting. Seven high-quality dissertations were nominated for the 2002 award and the recipient was selected by a committee consisting of Mohammad Abdolmohammadi (Chair), Richard Houston, Kathryn Kadous, and Rachel Schwartz. Dr. Wilks’ submission, titled “Predecisional Distortion of Evidence as a Consequence of Real-Time Audit Review” ranked high in all criteria listed above.

## **Notable Contribution to the Auditing Literature Award Presented by Robert Knechel, University of Florida**

The 2002 Notable Contribution to the Auditing Literature award was presented to Mark S. Beasley for his paper “An Empirical Analysis of the Relation between Board of Director Composition and Financial Statement Fraud” published in the October 1996 issue of *The Accounting Review*. Beasley reported the results of one of the first efforts to study the effectiveness of Boards of Directors as part of the governance structure of a corporation. He found that Boards with larger numbers of outside directors were less likely to experience financial fraud, although the specific existence



*Robert Knechel presents Mark Beasley with the 2002 Notable Contribution to the Literature Award*

of an audit committee did not affect the incidence of fraud. Furthermore, the likelihood of fraud declines as the ownership interests and tenure of outside directors increases. This paper led to a significant increase in research on corporate governance, which is made even more relevant by recent events affecting the auditing profession. The 2002 Notable Contribution to the Auditing Literature Award Selection Committee was composed of W. Robert Knechel (Chair), Timothy Fogarty, Jagan Krishnan, Thomas Noland, and Gary Peters.

## **2002 Outstanding Audit Educator Award Presented by Ira Solomon, University of Illinois at Urbana–Champaign**

I am truly sorry that Stan Biggs is not able to be here today to make this presentation in his capacity as committee chair. Stan very much wanted to be here but his dad is gravely ill. On the other hand, I am delighted that Stan asked me to make the presentation of the 2002 Outstanding Audit Educator Award in his place. I will, however, depart from the traditional path in making the presentation. I have known Cherry Cushing for over 25 years (for those who are compelled to do the math—she and I met when we were 10 years old). She is an articulate, smart, creative, and dedicated woman and an excellent tennis player. There is an old adage—behind every great man, there is a great woman. Cherry Cushing is proof of the wisdom of that adage. As a second-year doctoral student in 1977, I took a course on decision theory and information economics. Assistant Professor Barry Cushing was the instructor. I didn't know it at the time, but that experience—taking that course from Barry Cushing—would profoundly impact my career



*Ira Solomon presents Barry Cushing with the 2002 Outstanding Audit Educator Award*

as an audit educator/scholar. Barry had recently returned from a sabbatical at UCLA where he sat in on courses taught by some of the pioneers in information economics. He immediately recognized the applicability of the ideas to accounting and auditing. Such applicability was not always obvious to others, but Barry made it transparent. Consistently, the concepts were not easy, but Barry helped us to penetrate them. Indeed whether it has been in a decision theory and information economics doctoral seminar, or an auditing topics course, or in information systems, or in comparing audit approaches, Barry Cushing has made a career out of bringing clarity and transparency to what otherwise would be rather opaque topics and issues. In doing so he has influenced in the most positive way legions of undergraduate and graduate students of accounting and auditing. The Auditing Section of the American Accounting Association is, therefore, pleased to recognize Barry E. Cushing as the 2002 Outstanding Audit Educator.

# ASB Update as of February 1, 2002

Ray Whittington, DePaul University  
Academic Member of the Auditing Standards Board

In this update, I will focus on two significant proposed standards: the revision of SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*, and a new proposed standard on "Auditing Fair Value Measurements and Disclosures." As always, please contact me if you have any questions, comments, or suggestions.

## Revision of SAS No. 82

At its February meeting the ASB will likely approve the issuance of an exposure draft of a proposed standard to replace SAS No. 82. The major requirements of this proposed standard are as follows:

1. As a part of audit planning, have an engagement personnel discussion regarding the risks of material misstatement due to fraud. Arising out of a recommendation of the Panel on Audit Effectiveness, the purpose of this requirement is for the audit team to consider how and where the entity's financial statements might be susceptible to material misstatement due to fraud and to reinforce the importance of adopting an appropriate mindset of professional skepticism. For practical reasons, the discussion is not required to be face-to-face—it may take place by conference call or electronically. However, clearly it should be designed to be interactive.
2. Obtain information needed to identify the risks of material misstatement due to fraud by:
  - Making inquiries of management and others within the entity about the risks of fraud.
  - Considering the results of analytical procedures performed in planning the audit.
  - Considering fraud risk factors. The proposed standards reclassify the fraud risk factors based on the three conditions necessary for fraud to exist: an *incentive/pressure* to perpetrate fraud, an *opportunity* to carry out the fraud, and an *attitude/rationalization* to justify the fraudulent action.
  - Considering certain other information, such as the discussion among team members in planning the audit and information from the results of procedures relating to the acceptance and continuance of clients.
3. Identify fraud risks.
4. Assess the identified risks after taking into account an evaluation of the entity's related controls and programs.
5. Respond to the results of the assessment in the following ways:
  - An overall response, such as assigning individuals with specialized skill and knowledge to the engagement, or adding an element of unpredictability to the performance of audit procedures.
  - A response to identified risks that involve modification of the nature, timing, and extent of the procedures to be performed.
  - Perform certain procedures to further address the risk of material misstatement due to fraud involving management

override of controls. These represent the forensic-type procedures that arose from the recommendations of the Panel on Audit Effectiveness. The proposed standard states that such procedures are performed on audits of all public entities and would be performed on nonpublic companies unless the auditor concludes that there is little or no incentive for management to override controls. The procedures include examining journal entries and other financial statement adjustments, performing a retrospective review of significant accounting estimates for evidence of biases, and evaluating the business rationale for significant unusual transactions that come to the auditor's attention. The ASB will also consider at its February meeting requiring the performance of analytical procedures related to revenue. These procedures were selected based on consideration of the ways in which management fraud has been perpetrated in prior cases.

6. Evaluate the results of audit tests to identify indications of fraud. This section emphasizes the need to consider events and circumstances that may be indicative of fraud throughout the audit.
7. The standard also includes a series of new documentation requirements related to the above requirements.

This is a significant proposed standard that has greatly benefited from academic research on fraudulent financial reporting. I encourage your comments on the Exposure Draft.

## Auditing Fair Value Measurements and Disclosures

In January of this year the ASB posted on the AICPA web site an invitation to comment on a proposed standard being exposed by the International Auditing Practices Committee. The proposed standard titled "Auditing Fair Value Measurements and Disclosures" provides general auditing guidance in situations in which the accounting basis for measurement or disclosure of a financial statement item is some form of fair value. After receiving input from the invitation to comment, the ASB intends to develop the document into a proposed Statement on Auditing Standards. It is expected that the new standard would become an umbrella standard for auditing fair value measurements and disclosures, and would be supported by specific standards for certain financial statement elements such as SAS No. 92, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*.

This represents the first time that the ASB has developed a standard in this manner. However, it will probably not be the last as the ASB attempts to move toward harmonization of auditing standards. The standard is clearly important given the shift in the accounting model in the United States and other countries to fair values, and I encourage your comments at this stage of the process where you are in a position to influence both sets of standards.

# Press Release under GAO Press Release on Independence

## Friday, January 25, 2002

Today, David M. Walker, Comptroller General of the United States and head of the General Accounting Office (GAO), announced significant changes to the auditor independence requirements under Government Auditing Standards. These standards, which were first published in 1972 and are commonly referred to as the “Yellow Book,” cover federal entities and those organizations receiving federal funds. Various laws require compliance with the Comptroller General’s auditing standards in connection with audits of federal entities and funds. Furthermore, many states and local governments and other entities, both domestically and internationally, have voluntarily adopted these standards.

While the new standard deals with a range of auditor independence issues, the most significant change relates to the rules associated with nonaudit, or consulting services. Auditors have the capability of performing a range of services for their clients. However, in some circumstances it is not appropriate for them to perform both audit and certain nonaudit services for the same client. In these circumstances, the auditor and/or their client will have to make a choice as to which of these services they will provide.

The focus of the changes to the auditor independence standard is to better serve the public interest and to maintain a high degree of integrity, objectivity, and independence for audits of government entities. The standard includes a principle-based approach to addressing this issue supplemented with certain safeguards. The new independence standard for nonaudit services is based on two overarching principles:

- Auditors should not perform management functions or make management decisions; and
- Auditors should not audit their own work or provide nonaudit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.

For nonaudit services that do not violate the above principles, certain supplemental safeguards would have to be met. For example: (1) personnel who perform nonaudit services would be precluded from performing any related audit work; (2) the auditor’s work could not be reduced beyond the level that would be appropriate if the nonaudit work was performed by another unrelated party; and (3) certain documentation and quality assurance requirements must be met.

The new standard includes an express prohibition regarding auditors providing certain bookkeeping/record keeping services, and limits payroll processing and certain other services, all of which are presently permitted under auditing standards of the American Institute of Certified Public Accountants (AICPA). At the same time, the standard recognizes that auditors can provide routine advice and answer technical questions without violating these two principles or having to comply with the supplemental safeguards. The standard also provides examples of how certain services would be treated under the new rules.

The revisions contained in the new standard have gone through an extensive deliberative process over the past 3 years, including extensive public comments and input from the Comptroller General’s Advisory Council on Government Auditing Standards. The Council includes 20 experts in financial and performance auditing and reporting drawn from all levels of government, academia, private enterprise, and public accounting, who advise the Comptroller General on Government Auditing Standards.

The GAO received extensive comments from the AICPA and individual members of the public accounting profession. Many of these comments related to activities by small CPA firms. Their concerns centered on the fact that the new standards for nonaudit services would be inconsistent with the current practices permitted under AICPA independence rules and could cause a hardship on the auditors and management of audited entities that receive nonaudit services. The views of all parties that formally commented on an exposure draft of the new standards were thoroughly considered by the Comptroller General in making this decision.

In the final analysis, protecting the public interest and ensuring public confidence in the independence of auditors of government financial statements, programs, and operations, both in form and substance, were the overriding considerations in the Comptroller General’s decision to adopt these new standards for nonaudit services. According to Comptroller General David M. Walker, “This standard represents an important step to enhance the independence of external auditors and better protect the public. It is our hope that the AICPA will raise its independence standards to those contained in this new standard in order to eliminate any inconsistency between this standard and their current standards.”

According to Comptroller General Walker, this new standard is the first of several planned steps in connection with nonaudit services covered by the Yellow Book. For example, the Comptroller General plans to work with the Federal Accounting Standards Advisory Board, which develops generally accepted accounting principles for the federal government, to determine what type of additional disclosures relating to nonaudit services may be appropriate. In addition, Comptroller General Walker has asked his Advisory Council on Government Auditing Standards to review and monitor this area to determine what, if any, additional steps may be appropriate.

In a separate but related matter, Comptroller General David M. Walker, Secretary of the Treasury Paul H. O’Neill, Office of Management and Budget Director Mitchell E. Daniels and Office of Personnel Management Director Kay Coles James, who comprise the Principals of the Joint Financial Management Improvement Program, have agreed that the 24 major departments and agencies covered by the Chief Financial Officers Act should have audit committees. The scope, structure and timing of this new requirement will be determined over the next several months. This will include determining what role these audit committees might play in connection with nonaudit services.

Because of the breadth of changes in the new standards, they are applicable to all audits for periods beginning on or after October 1, 2002. However, early implementation is encouraged.

The new audit standard is available on GAO’s web site at <http://www.gao.gov/govaud/ybk01.htm>.

# DEVELOPMENTS IN INTERNATIONAL AUDITING STANDARDS DURING 2001

**Roger Simnett, University of New South Wales**

*Member, Auditing Standards Committee*

**Kay W. Tatum, University of Miami**

*Chair, Auditing Standards Committee*

In the past year, the International Federation of Accountants (IFAC) and various constituencies within the auditing profession have worked to increase the quality of the International Standards on Auditing (ISAs) issued by the International Auditing Practices Committee (IAPC). As has been outlined in previous international updates contained in *The Auditor's Report*, the IFAC's ultimate goal is to attain endorsement of the ISAs by the International Organization of Securities Commissions (IOSCO). To achieve this goal, some of the more recent initiatives of the IFAC have been aimed at improving the processes used to develop the ISAs as well as the ISAs themselves. In January 2001, the IFAC appointed the IAPC Review Task Force (Task Force). In November 2001, the Task Force issued its final report, which was approved by the IFAC. This article discusses the principal recommendations contained in the Task Force's report, as well as outlining significant developments concerning other major projects on the IAPC's agenda.

## **IAPC Review Task Force**

The Task Force was charged with conducting a comprehensive review of the membership, organization, and processes of the IAPC. The objective of the review was "to ensure that the IAPC meets the anticipated requirements of regulators and other external observers in terms of its efficiency, transparency and credibility as the recognized international auditing standard setter, within IFAC" (IFAC 2001, 21). The Task Force's principal recommendations include:

- Revising the IAPC's objectives. The IAPC's new goals are to establish auditing standards and guidance for financial statement audits, establish assurance standards and guidance on both financial and nonfinancial matters, and publish other papers on audit and assurance matters. Regarding auditing standards, the IAPC's goal is that the auditing standards should be "of such high quality that they are acceptable to auditors, governments, securities regulators and other key stakeholders across the world, thereby strengthening public confidence in the global auditing profession" (IFAC 2001, 9).
- Changing the IAPC's name to the International Auditing and Assurance Standards Board (IAASB). The new name more accurately describes the IAPC's objectives and is consistent with the name of the internationally recognized accounting standard-setting body, the International Accounting Standards Board. Most importantly, the new name conveys a message about the broader focus of the IAPC.
- Expanding the size of the IAPC from 14 to 18 members. Of the 18 members, there are 15 auditors and three nonauditors (an academic, a user of financial reports, a public sector representative). According to the Task Force, the major role of the academic is to "provide a link to research in the professional area and...contribute to a scientific, systematic approach to the standard-setting work" (IFAC 2001, 12).
- Opening the IAPC's meetings to the public and publishing its agenda materials and minutes of meetings, preferably on the Web. These new policies are designed to increase the transparency of the standard-setting process.
- Establishing partnerships with individual national standard setters in preparing and issuing standards. It is argued that there are two main advantages to partnering. First, it increases the efficiency of the standard-setting process by allowing the IAPC to take advantage of work done by national standard setters. Second, it encourages convergence of national and international standards. A trend toward these joint work efforts can be seen in the IAPC's recently completed fraud project and in its current projects on the audit risk model and auditing fair values.

## **Fraud**

In 2001 the IAPC issued ISA No. 240, *The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*. The standard is effective for audits of financial statements for periods ending on or after June 30, 2002. ISA No. 240 is an example of an IAPC project in which the IAPC benefited from efforts of national standard-setting bodies. ISA No. 240 holds some similarities to U.S. Statement on Auditing Standards (SAS) No. 82, *Consideration of Fraud in a Financial Statement Audit*. For example, both standards require the auditor to consider fraud risk factors that relate to fraudulent financial reporting and misappropriation of assets when planning the audit. However, there are some significant differences between the two documents. For example, SAS No. 82 requires the auditor to consider the risk factors to make a separate fraud assessment, while ISA No. 240 requires no separate assessment of fraud, but a consideration of these factors while assessing inherent and control risk. The fact that the IAPC has determined that these factors should be considered when assessing inherent risk and control risk is an indication that the IAPC has not yet been sold on (and their belief that academic research has not yet demonstrated) the benefits arising from a separate fraud risk assessment.

When the IAPC issued the fraud standard, the IAPC was aware that the U.S. Auditing Standards Board (ASB) had undertaken a major project on fraud and that the outcome of the U.S. project might require the IAPC to revisit its standards. The IAPC is currently monitoring the ASB's fraud project.

*(Continued on page 15)*

## CALL FOR NOMINATIONS

# Outstanding Auditing Dissertation Award

The Auditing Section seeks nominations for its annual Outstanding Auditing Dissertation Award. The author of the dissertation judged to make the most outstanding contribution to auditing knowledge among those dissertations nominated for consideration will receive the award. The assessment of what constitutes an outstanding contribution will be based upon, but not limited to, the following criteria:

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

Selection of the award winner will be made by the Section's Outstanding Dissertation in Auditing Committee. A dissertation can be nominated either by the author or one or more members of the dissertation committee. Nominations will be considered complete when the following materials have been submitted:

- A letter from the dissertation chairperson stating that the dissertation has been completed and accepted by the degree-granting institution between January 1, 2000 and December 31, 2001 (dissertations can be nominated more than once).
- Five copies of a nomination letter stating why the dissertation is deserving of special recognition.
- An electronic copy of a paper from the dissertation that meets the criteria for papers submitted to *AUDITING: A Journal of Practice & Theory* (refer to the latest issue for requirements related to length and other matters, e.g., submission of experimental instruments).
- An electronic copy of the entire dissertation.

Please submit all materials by July 1, 2002 to:

**Professor Joseph V. Carcello**  
University of Tennessee  
601 SMC  
Knoxville, TN 37996-0560  
Phone: (865) 974-1757  
Fax: (865) 974-4631  
Email: jcarcell@utk.edu

---

## Developments in International Auditing Standards during 2001

(Continued from page 14)

### Auditing Fair Values

In October 2001, the IAPC issued an Exposure Draft of a proposed ISA, *Auditing Fair Value Measurements and Disclosures*. The proposed ISA addresses audit considerations relating to the measurement, presentation and disclosure for material assets, liabilities and specific components of equity presented or disclosed at fair value in financial statements. The IAPC views the proposed ISA as a foundation standard that will provide a framework for auditing fair value measurements and disclosures. The proposed ISA will also serve as an umbrella standard for other pronouncements (for example, International Auditing Practice Statement No. 1012, *Auditing Derivative Financial Instruments*).

The deadline for comments about the proposed ISA was January 15, 2002. Although some respondents complained that the proposed ISA is too general in nature and that there is too much overlap with ISA No. 540, *Audit of Accounting Estimates*, the overall support for the proposed ISA is strong. The IAPC expects to issue the standard at its June 2002 meeting.

Interestingly, the ASB has decided to use the proposed ISA as the basis for a SAS. On January 15, 2002, the ASB issued an Invitation to Comment, which asks for comments about the proposed ISA and the process being used to develop the SAS. The ASB plans to use the comments received and the proposed ISA to develop an Exposure Draft of a proposed SAS that will be issued in April 2002. The ASB anticipates issuing a final SAS in July 2002.

The ASB has committed to forwarding all significant comments to the IAPC. The IAPC and the ASB plan to reconcile significant differences before the final standards are issued.

### Audit Risk Model

In response to the report of the Joint Working Group, the IAPC formed the Audit Risk Subcommittee to consider whether the ISAs should be modified to incorporate what is commonly referred to as a business risk approach to auditing. The Audit Risk Subcommittee

(Continued on page 16)

## **Developments in International Auditing Standards during 2001**

*(Continued from page 15)*

worked separately, but in tandem, with the ASB's Risk Assessment Task Force for a year. In October 2001, the two task forces were merged into one task force, the Audit Risk Task Force, which is co-chaired by IAPC member John Kellas and ASB member John Fogarty. The Audit Risk Task Force's goal is to draft two documents that will be issued as two ISAs and SASs. The two documents, if ultimately adopted, will make significant changes to the existing ISAs.

The first document, which is referred to as "assessing risk," will replace ISA No. 310, *Knowledge of the Business*, and ISA No. 400, *Risk Assessments and Internal Control*. The other document, which is referred to as "further audit procedures," will be a new standard. The adoption of these two standards will prompt the revision of other standards such as ISA No. 300, *Planning*, and ISA No. 500, *Audit Evidence*.

The "assessing risk" document requires the auditor to obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess risks that may result in material misstatement of the financial statements. The entity and its environment consists of: (1) nature of the entity; (2) industry, regulatory, and other external factors, including accounting policies; (3) objectives and strategies and related business risks; (4) measurement and monitoring of the entity's performance; and (5) internal control. Although the document requires the auditor to assess the risk of material misstatement, it does not require a separate assessment of inherent and control risk. The "further audit procedures" document will set forth requirements for linking the design and performance of procedures to the risk assessment.

The IAPC will review the first draft of the "assessing risk" document at its March 2002 meeting, at which time it will also discuss a timetable for the "further audit procedures" document.

### **Determination/Communication of Assurance Levels other than High**

Over the last few years the IAPC reached something of an impasse as to the determinants of the level of assurance for an assurance services framework. Two major views had been forwarded: the single determining factor (work effort) view, and the multiple determinants (interaction of variables) view. The U.S. had supported the single factor approach in the development of the attestation standards. The IAPC commissioned research from the International Symposium of Audit Research (ISAR) team, comprising academics from University of Southern California (North America), Universiteit Maastricht (Europe), Nanyang Technological University (Asia), and University of New South Wales (Australia). The research approach involved reviewing all current research and available evidence (including approaches of other professions) and distributing questionnaires to National Accounting Institutes and accounting practices in twelve countries, on determinants of level of assurance and identifying innovative assurance services provided and the approach used for communicating the level of assurance.

The report concluded that the evidence broadly supported an interaction of variables approach, with the major three determinants being the work effort, subject matter and suitability of criteria. They also concluded that while the high-assurance-level audit report was well recognized and appeared to be an effective communication device, the standard form review report containing negative assurance was generally not effective. Some of the reasons included the fact that in format the two reports were very similar, and standard descriptions contained in the review report, such as that used for work effort, were misunderstood. It found that while there were some innovative reporting practices being undertaken by the profession for various assurance services providing assurance at levels other than high, in most situations the reports were standard form review reports, with perhaps some minor variations. This commissioned research report entitled "The Determination and Communication of Levels of Assurance other than High" is to be made available on the IFAC web site.

### **Information Technology**

For the first time in many years the IAPC has released new or revised guidance in the area of information technology. During the year the following guidance was issued: International Auditing Practice Statement (IAPS) No. 1001, *IT Environments—Stand-Alone Personal Computers*, IAPS No. 1002, *IT Environments—On-line Computer Systems*, IAPS No. 1003, *IT Environments—Database Systems*, and IAPS No. 1009, *Computer-Assisted Audit Techniques*.

Guidance has also been drafted for the situations where the client entity engages in commercial activity over a public network such as the Internet. The guidance covers four main areas. In the area of skills and knowledge it outlines that appropriate levels are required for two main areas; information technology and Internet e-com, and provides some guidance on these appropriate levels. The second area is knowledge of the business, including general knowledge of the entity's business activities and the industry in which it operates, the extent of the entity's Internet e-com involvement, and the entity's e-com strategy. The third main area is risk identification, which takes a business risk approach and also emphasizes legal and regulatory issues. The final main area is internal control considerations, covering security, transaction integrity, and process alignment (the way the various IT systems are aligned). This Exposure Draft of a proposed IAPS entitled *Electronic Commerce Using the Internet or Other Public Networks—Effect on the Audit of Financial Statements* was released for public comment in October 2001, with the comments closing January 2002. The comments received are to be considered at their next meeting.

### **Conclusion**

In our last international auditing standards update published in *The Auditor's Report* (Winter 2001), we outlined that globalization will continue to be one of the major forces motivating the IAPC. Clearly this has occurred, as seen in the continued push to gain the

*(Continued on page 17)*

## Developments in International Auditing Standards during 2001

(Continued from page 16)

IOSCO accreditation for the ISAs, and the acceptance of the Review Task Force's recommendations not only to increase the quality of the standards, but to also make the standard-setting process more transparent. The review of the audit risk model, and developments in the umbrella assurance services standards will continue to be a major focus of attention as the flow-through effect onto other standards is felt.

Also in our update last year we outlined that the major perceived deficiencies in the standards were in the areas of IT and governance. While there have been initiatives in the area of IT, it still appears that the standard-setting process is playing catch-up to many of the issues confronting practice. In the area of governance, while there have been standards developed aimed at independence, recent events have shown how fragile public confidence in the profession and the reputation of the profession, its major asset, really is. Perceived deficiencies in accounting standards and corporate governance practices show that initiatives in the development of assurance services standards must be closely linked to the initiatives of other standard-setting bodies. The profession must explore how it can best participate in the development of appropriate international corporate governance standards and practices. If these issues are not addressed, it is one of the groups with the most to lose.

### REFERENCES

International Federation of Accountants (IFAC), International Auditing Practices Committee (IAPC) Review Task Force. 2001. *Report and Recommendations*. New York, NY: IFAC.

---

# NINTH ANNUAL MIDYEAR AUDITING SECTION CONFERENCE

**January 16–18, 2003**  
**Huntington Beach, California**

Your help in planning and conducting the Section's 2003 Midyear Conference is needed. If you are willing to volunteer your assistance in one or more of the following areas, please complete this form and hand it to a Steering Committee member or mail/fax it to the address/number below.

Name \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_ Email \_\_\_\_\_

**Reviewer:** If you are willing to assist by reviewing one to three manuscripts, please indicate your areas of competence/interest.

Research Areas \_\_\_\_\_

Research Methods \_\_\_\_\_

**Session Chair or Discussant:** Please indicate if you are willing to assist in either of these capacities.

Session Chair \_\_\_\_\_ Discussant \_\_\_\_\_

**Special Sessions:** Please provide any ideas that you have for special CPE topics, panels, workshops, etc. If you know any particular individual(s) who may be interested in the areas you recommend, please list their names. Use the back of this page for additional comments.

---

---

---

The Steering Committee very much appreciates your input. Mail or fax this form to:

**Robert J. Ramsay**

**Phone: (859) 257-3702**

**Fax: (859) 257-3654**

**Email: rjrams2@uky.edu**

## HAVE YOU SEEN...?

Brad Reed, Southern Illinois University Edwardsville, and John T. Reisch, East Carolina University

**“The Relationship between Board Characteristics and Voluntary Improvements in Audit Committee Composition and Experience,”** by M. S. Beasley and S. E. Salterio, *Contemporary Accounting Research* (Vol. 18, No. 4, 2001): 539–570.

This paper provides an empirical investigation regarding certain board of director characteristics and the extent that audit committee composition voluntarily exceeds minimum mandated levels and includes outside directors with financial reporting and audit committee knowledge and experience. The authors argue that such staffing decisions can directly affect the audit committee’s ability to monitor management’s financial-reporting process. The authors examine 627 Canadian firms and find that three board of director characteristics are associated with variation in audit committee characteristics. Firms are likely to voluntarily include more outsiders on their audit committees beyond the mandated minimum majority (1) as the proportion of outside director representation on the board of directors increases, (2) when firms segregate the board chairperson position from the CEO/president position, and (3) as board size increases. This paper provides the first large-scale evidence about the association between board composition, the segregation of the board chairperson and key management positions, and board size, with audit committee composition over and above mandated levels.

**“The Demand for Auditor Reputation across International Markets for Audit Services,”** by N. Fagher, M. H. Taylor, and D. T. Simon, *The International Journal of Accounting* (Vol. 36, No. 4, 2001): 407–420.

The authors of this study use a simultaneous-equations approach to examine both the supply and the demand for large-firm auditors across 20 different countries. The authors use simultaneous equations to account for the endogeneity between choice of auditor and audit fees. The study finds that disclosure characteristics are an important determinant of the choice of large-firm auditor. The demand for a large-firm auditor is positively related to the amount of disclosure in a given country. This study confirms previous findings that audit fees are higher in countries with higher litigation propensity and more extensive regulation. Additionally, the authors find that these previous results are unchanged when simultaneity of fees and auditor reputation is considered.

**“The Large Audit Firm Fee Premium: A Case of Selectivity Bias?”** by J. C. Ireland and C. S. Lennox, *Journal of Accounting Auditing & Finance* (Vol. 17, No. 1, 2002): 73–91.

This study provides an investigation of the finding of prior research that large (Big 5) audit firms earn significantly higher fees than small (non-Big 5) firms. The authors of this study note that prior research treats auditor choice as exogenous. However, the authors note that the auditor choice is not exogenous but rather endogenous. Specifically, the authors note that consistent with the signaling literature high-quality firms are simultaneously more likely to hire large audit firms and pay lower audit fees. The authors find that the effects of auditor selection bias on audit fees are statistically and

economically significant. The authors find, consistent with analytical research, that large (small) audit firms experience advantageous (adverse) selection in attracting high (low) quality companies. The results of this study indicate the premium earned by large audit firms is more than twice as large when selectivity effects are taken into account (53.4 percent compared to 19.2 percent).

**“The Disciplinary Process of the Accounting Profession: Protecting the Public or the Profession? The Quebec Experience,”** by J. Bédard, *Journal of Accounting and Public Policy* (Vol. 20, No. 4/5, 2001): 399–435.

This paper examines the self-regulatory aspect of the accounting profession. Specifically the study examines the role of disciplinary activities of the profession in protecting the public interest in the Canadian province of Quebec, a jurisdiction where, although the profession is self-regulated, several rules are imposed by the government, including mandatory public participation and oversight by a regulatory agency. The paper examines two types of rule violations: private interest violations and public interest violations. Private interest is defined as the latent motivation of ethical codes to protect the interests of the accounting profession. Public interest is defined as regulation intended to protect the clients and third parties who place reliance on the pronouncements and advice of accountants. The author’s results indicate that at the trial stage, which is heavily regulated and where public participation is high, public-interest violations predominate, are considered more serious than private-interest violations, resulting in more severe sanctions. At the inquiry stage, which is characterized by a lower level of public involvement and a high degree of discretion, the results indicate that the decision of whether to prosecute a case depends on the cost of the disciplinary process, the notoriety of the case, and the risk that the case if prosecuted results in an acquittal. The author concludes from these results that the preponderance of the public interest over the private interest depends on the degree of regulation and public participation.

**“Auditor Reputation Building,”** by B. Mayhew, *Journal of Accounting Research* (Vol. 39, No. 3, 2001): 599–617.

The results of an experimental markets study examining auditor reputation building is presented in this paper. Using the auditor’s effort decision to proxy for the auditor’s reputation, the author finds that reputations form in all treatments that supply nearly immediate rewards to participants who adopt reputation equilibrium strategies, whereas reputation forms less than half the time when participants have to maintain reputation equilibrium strategies for a number of periods before the market rewards their efforts. The difference in the experimental results suggest that the speed in which auditors and managers are rewarded for pursuing reputation equilibrium strategies is a critical determinant of reputation formation.

(Continued on page 19)

---

## Have You Seen...?

(Continued from page 18)

**“Audit Quality, Management Ownership, and the Informativeness of Accounting Earnings,”** by F. A. Gul, S. G. Lynn, and J. S. L. Tsui, *Journal of Accounting, Auditing & Finance* (Vol. 17, No. 1, 2002): 25–50.

This study examines an auditor’s ability to moderate two findings of previous research: first, the association between informativeness of accounting earnings and management ownership, and second, whether audit quality moderates the negative association between management ownership and discretionary accruals. Using a sample of Australian firms, the authors find that the positive relationship between returns-earnings association and management ownership is significantly weaker for firms with Big 6 auditors. Also, the negative association between management ownership and discretionary accruals is weaker for firms with Big 6 auditors. The authors conclude that their findings are consistent with the theory that higher-quality audits can mitigate insiders’ incentives to exploit accounting-based contractual constraints and manage earnings as a result of the separation of ownership and control.

**“Evidence about Auditor-Client Management Negotiation Concerning Client’s Financial Reporting,”** by M. Gibbins, S. Salterio, and A. Webb, *Journal of Accounting Research* (Vol. 39, No. 3, 2001): 535–563.

In this paper, a negotiation process model is developed based on existing behavioral literature, but includes process elements and contextual accounting features expected to be observed in auditor-client negotiation settings. The authors utilize a questionnaire completed by 93 senior audit firm partners to support the model and provide evidence about the negotiation process between external auditors and client management concerning the client’s financial reporting. Results of the research indicate that accounting negotiation is deemed a normal part of auditing practice, can materially affect the financial statements, and involves a complex set of context sensitive features.

**“Misstatement Direction, Litigation Risk, and Planned Audit Investment,”** by O. Barron, J. Pratt, and J. D. Stice, *Journal of Accounting Research* (Vol. 39, No. 3, 2001): 449–462.

In an experiment that uses 102 audit managers and partners as participants, the authors find that unintentional overstatements give rise to higher assessments of litigation risk by auditors, as well as larger audit investments, than do unintentional understatements. The effect is larger in the presence of high litigation risk in the client’s industry. The results suggest that given an equal likelihood of understatement and overstatement error occurrence, the possibility of undetected understatement errors in audited financial statements is greater than the possibility of undetected overstatement errors. While the findings appear economically rational given the litigious auditing environment, the results of favoring the detection and correction of overstatements over understatements when they are equally likely is inconsistent with professional standards.

**“A Cascaded Inference Model for Evaluation of the Internal Audit Report,”** by G. Krishnamoorthy, *Decision Sciences* (Vol. 32, No. 3, 2001): 499–512.

A model is developed in this paper that provides a theoretical framework for how external auditors can evaluate the work of internal auditors. Using a cascaded inference framework to structure reliability assessments, attributes of source reliability (reliability of audit procedure, competence, and objectivity) are explicitly modeled and combined using Bayes’ rule to determine the inferential value of the internal auditor’s work. Results suggest that the inferential value of an internal audit report is highly sensitive to internal auditor reporting bias (i.e., propensity to misreport findings), but less sensitive to internal auditor reporting veracity (i.e., propensity to report truthfully). In addition, the author reports that the internal auditor reporting bias is conditional on the level of internal auditor competence, indicating a significant interaction between objectivity and competence factors.

**“Internalization versus Externalization of the Internal Audit Function: An Examination of Professional and Organizational Imperatives,”** by L. Rittenberg and M. A. Covaleski, *Accounting, Organizations and Society* (Vol. 26, No. 7/8, 2001): 617–641.

This paper examines the trend of outsourcing the internal audit function to public accountants and the professional turf war that has emerged between internal auditors and public accountants over internal audit services. The authors present a thorough review of the sociology of professions and outsourcing literature and develop two primary research propositions to investigate the conflict. The underlying premise is that public accounting firms attempt to re-define the boundaries of external and internal auditing to justify outsourcing, while internal audit departments attempt to re-affirm the boundaries between internal and external auditing to retain their provision for internal audit services. The authors then provide support for their propositions by examining internal and external auditing literature on the topic as well as the positions of professional accounting organizations (i.e., the IIA and AICPA).

**“The Contribution of Internal Audit as a Determinant of External Audit Fees and Factors Influencing this Contribution,”** by W. L. Felix, Jr., A. A. Gramling, and M. Maletta, *Journal of Accounting Research* Vol. 39, No. 3, 2001): 513–534.

In this paper, two regression models are developed and tested to expand the existent literature that investigates internal auditor contribution on external audits. Results from the first model, which examines the effect of internal auditor contribution on external audit fees, indicate a significant, negative association between the extent to which internal audit contributes to the financial statement audit and external audit fees. The second model examines factors that influence the extent to which internal audit contributes to the financial statement audit. Results of the second model suggest that internal audit contribution is significantly affected by internal audit quality and, depending on the level of inherent risk, both the availability of internal audit and the nature of the relationship between internal and external auditors.

# COSO Launches New Study on Managing Enterprise Risks

**Mark Beasley**

*North Carolina State University*

**Doug Prawitt**

*Brigham Young University*

**Larry Rittenberg**

*University of Wisconsin–Madison*

Perhaps there is no more pervasive concept that affects organizations more than risk. Many organizations and firms have a “risk model” that they utilize. However, while models exist, no one comprehensive model pulls together all the risk elements into one encompassing framework that can be used across a wide variety of organizations and for a wide variety of purposes. Following up on its highly influential project on Internal Control, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has embarked on another landmark project, this time to provide guidance in helping organizations manage enterprise-wide risks. The goal of this project is to provide extensive guidance that contains both a conceptual framework and accompanying detailed application guidance to assist companies in the management of risks. While a fairly extensive literature on the subject exists in a variety of disciplines, COSO concluded after significant study that there is considerable disparity between studies on risk management and how risk is understood and managed by businesses and other organizations.

COSO embarked on this study in January 2001 after concluding that there is worldwide consensus that all organizations can benefit from improved risk identification and risk analysis procedures. Events of the past year have continued to highlight the central importance of effective enterprise risk management. Yet, until now, there has been no universally agreed-upon comprehensive framework to facilitate communication or to guide an organization’s efforts to manage risk. Because risk management has an important relationship with internal controls in both practice and theory, COSO intends for the enterprise risk management framework to have direct ties with its landmark internal control framework. Further, the concepts of risk may be incorporated into the accounting model as the concepts evolve.

In the spring of 2001, COSO appointed an Advisory Council to oversee the ERM project. The Advisory Council consists of representatives from each of COSO’s member organizations, including the American Accounting Association (AAA). After issuing a Request for Proposals and evaluating responses in the spring and summer of 2001, COSO’s ERM Advisory Council selected PricewaterhouseCoopers (PwC) to conduct the extensive study. PwC will provide substantial staff time to conduct the project, which will require an estimated 10,000 hours of professional time.

## **Who is COSO?**

COSO is a voluntary private-sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. It is jointly sponsored and funded by the American Institute of CPAs (AICPA), the American Accounting Association (AAA), the Institute of Internal Auditors (IIA), the Financial Executives International (FEI), and the Institute of Management Accountants (IMA). Larry Rittenberg currently represents the AAA on the COSO Board. Mark Beasley and Doug Prawitt represent the AAA on the COSO Advisory Council that oversees the ERM project. All three of the AAA representatives are members of the Auditing Section. The Advisory Council periodically reports to the full COSO Board on the status of the project.

COSO was originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private sector initiative that studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors, for the SEC and other regulators, and for educational institutions. Since then, COSO has issued these additional studies:

- Report of the National Commission on Fraudulent Financial Reporting
- Internal Control: Integrated Framework
- Internal Control Issues in Derivatives Usage
- Fraudulent Financial Reporting: 1987–1997, An Analysis of U.S. Public Companies

Some of the PwC team leaders currently overseeing this project also participated on the earlier COSO internal control and derivatives projects.

*(Continued on page 21)*

## **COSO Launches New Study on Managing Enterprise Risks**

*(Continued from page 20)*

### **Risk Management Project Goals and Objectives**

COSO has established the following goals and objectives for the ERM project:

1. There is a significant need for guidance about enterprise-wide risk management that provides both a conceptual framework and detailed application guidance. The guidance will include not only a theoretical framework for assessing enterprise-wide risks, but also actionable guidance to measure and control risk conditions, such as example risk management data assessment tools useful for benchmarking.
2. The theoretical framework portion of the publication will be coordinated with COSO's internal control framework as outlined in *COSO's Internal Control: Integrated Framework Guidance*. However, the risk model is expected to be more encompassing than the internal control framework and should present a broader framework for identifying, managing, monitoring, and controlling risks.
3. The enterprise-wide risk management guidance will emphasize coordinating risk management across critical segments of a business, not just financial-reporting risks.
4. The enterprise-wide risk management guidance will be targeted for middle market and larger companies, while still being useful to other organizations including government agencies, industry associations, and not-for-profit groups.

The overall goal of the study is to provide both conceptual and practical "how-to" guidance to assist organizations in building effective programs to identify, measure, prioritize, and respond to risks. COSO recognizes that while many organizations are engaging in some aspects of risk management, this study will help identify all of the aspects that should be present and how they can be coordinated. Further, it will identify interrelationships between risk and risk management.

### **The Study's Process**

The project team led by PwC began its detailed work in Fall 2001 by assessing the guidance already available. That process included an extensive literature search in addition to conducting surveys and focus-group forum meetings to obtain relevant background input. Throughout the first half of 2002, the project team will be developing the overall conceptual framework and designing the detailed framework and related application guidance. One of the key goals of this project is to ensure broad support and acceptance of the risk guidance. Thus, COSO plans to ensure appropriate due process by seeking input on both the conceptual framework and related application guidance. The exposure draft, which is targeted for Fall 2002, will be circulated widely to ensure feedback is received from not only the accounting community, but also from other constituencies outside the accounting domain as well. After evaluating and incorporating criticisms and suggestions on the exposure draft, COSO expects to issue its final report by Summer 2003.

### **How Can Auditing Section Members Help?**

The success of this project will be largely dependent on input received from experts in risk management. The project team would be happy to provide regular updates on progress to our section. Members of the Auditing Section can play a key role in providing useful input to the project team. First, Section members who have conducted research on risk management issues or are aware of relevant publications can assist the project team by providing information about those studies and documents. Please send relevant information to one of the authors of this article (mark\_beasley@ncsu.edu; doug\_prawitt@byu.edu; lrittenberg@bus.wisc.edu). Second, Section members will be asked to respond to the exposure draft when it becomes available in Fall 2002 (please watch *The Auditor's Report* for notice of the due process timetable). Third, there may be future opportunities for Section members to participate at presentations or workshops conducted by the project team. Last, we will be asking the Auditing Section to provide a team review of the conceptual model and the initial draft to help the project team members respond to the conceptual framework and the working draft. The AAA was instrumental in shaping the previous COSO projects to ensure a solid framework. We hope to continue that history of excellence as we deal with risk. We encourage your participation and seek any relevant input you may be able to provide.

## **AUDITING SECTION ANNOUNCES NEW AWARD**

### **Innovation in Auditing and Assurance Education Award**

The Executive Committee is seeking nominations from the Section's membership for the first Innovation in Auditing and Assurance Education Award to be given at the Auditing Section Midyear Conference in January 2003. The purpose of the award is to encourage innovation and improvement in auditing and assurance education. The award will recognize a significant activity, concept, or materials. The criteria used to judge the submissions include, but are not necessarily limited to:

- a. Innovation
- b. Educational benefits
- c. Adaptability by other educational institutions or to other situations

Nominations may include, for instance, a set of teaching materials, a creative instructional strategy, or an insightful teaching approach. The innovation should have been implemented so that evidence of its success can be evaluated. Award winners must be willing to share instructional materials with other members of the Section. A completed application should include the following:

- a. A description of the innovation, including sample materials
- b. Evidence that the innovation has been tested and shown to have educational benefits
- c. The name of a contact person, including the person's phone, email address, and office mailing address
- d. A copy of any published articles or working papers regarding the innovation by the nominee(s)

Individual faculty members or groups of faculty teaching or preparing materials to be used for auditing and/or assurance education are eligible to apply. Persons may also nominate another faculty member or group of faculty. At least one nominee must be a member of the Auditing Section. Nominations should be sent by July 1, 2002 to:

**Professor E. Michael Bamber**  
J.M. Tull School of Accounting  
Terry College of Business  
University of Georgia  
Athens, GA 30602-6252  
Phone: (706) 542-3601  
Fax: (706) 542-3630  
Email: [mbamber@terry.uga.edu](mailto:mbamber@terry.uga.edu)

## **CALL FOR NOMINATIONS**

### **Outstanding Auditing Educator Award**

The Outstanding Auditing Educator Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2003. This award is given annually and recognizes outstanding contributions to the field of auditing education. Prior recipients of this award include Andy Bailey, Ira Solomon, William Kinney, Jack Krogstad, Glen Berryman, Fred Neumann, Howard Stettler, William Felix, Al Arens, Jim Loebbecke, Nick Dopuch, and Ken Trotman. Nominations should be sent by July 1, 2002 to:

**Professor E. Michael Bamber**  
J.M. Tull School of Accounting  
Terry College of Business  
University of Georgia  
Athens, GA 30602-6252  
Phone: (706) 542-3601  
Fax: (706) 542-3630  
Email: [mbamber@terry.uga.edu](mailto:mbamber@terry.uga.edu)

---

# ***AUDITING: A Journal of Practice & Theory***

**Arnie Wright, Editor**

**December 31, 2001**

<b>Manuscript Flow</b>	<b>1/1/01–12/31/01</b>	<b>1/1/00–12/31/00</b>	<b>7/1/99–12/31/99</b>
<b>Submissions</b>			
New	78 (80%)	59 <sup>a</sup> (66%)	49 <sup>b</sup> (64%)
Resubmissions	20 (20%)	31 (34%)	28 (36%)
Available for decision	98	90	77
Decisions made	86	63	69
Out for review or awaiting decision	12	27	8
<b>Acceptance Rates</b>			
Accepted for publication	11 (13%)	15 (24%)	11 (16%)
Returned for revision	35 (41%)	22 (35%)	16 (23%)
Rejected	40 (46%)	26 (41%)	42 (61%)
<b>Reviewing Times</b>			
Average Reviewer Days (average for all MS, not just first round)	32	36	39
Average Turnaround (average for all MS, not just first round)	77	79	81

---

<sup>a</sup> Includes 24 manuscripts that were submitted for the ISAR conference which was held July 7–8, 2000 at UM, Maastricht, the Netherlands.

<sup>b</sup> Includes 20 manuscripts for the Waterloo Conference which was held November 4–6, 1999 at Waterloo, Canada.

---

## **CALL FOR NOMINATIONS**

### **Nominees for Election as Section Officers**

The Auditing Section members will elect two officers in Fall 2002 for **Vice President–Academic (President-Elect)** and **Secretary**. Those elected will begin serving their terms in August 2003. Please submit names of individuals you would like to nominate for these positions no later than **July 1, 2002**. The Nominations Committee will then select the slate for election from these nominations. In addition, the Bylaws require the Nominations Committee to automatically place on the ballot any person whose nomination is accompanied by a signed petition of no fewer than one hundred (100) members in good standing of the Section and a signed statement by the nominee of willingness to serve if elected. This petition should also be received by July 1, 2002. Please submit nominations and/or petitions to E. Michael Bamber, Chairperson, Nominations Committee, by mail, fax or email at the following address:

**Professor E. Michael Bamber**  
J.M. Tull School of Accounting  
Terry College of Business  
University of Georgia  
Athens, GA 30602  
Phone: (706) 542-3601  
Fax: (706) 542-3630  
Email: mbamber@terry.uga.edu

**American Accounting Association—Auditing Section**  
**Statement of Cash Receipts, Disbursements, and Cash Balance for**  
**Years Ended August 31, 2001 and 2000 (Note 1)**

	FY 2001 9/1/00–8/31/01 (Actual)	FY 2000 9/1/99–8/31/00 (Actual)
<b>Receipts:</b>		
Membership Dues (Note 2)	\$ 28,125.50	\$ 24,834.00
Journal Subscriptions	16,375.00	16,703.20
Sales of Publications/Royalties (Note 3)	2,331.79	1,150.28
Journal Submission Fees	5,475.00	4,300.00
CPE (net)	2,700.00	2,100.00
Reimbursements (Note 4)	55,546.93	16,319.49
Midyear Meeting Registration	32,785.00	18,345.00
Miscellaneous Receipts (Note 5)	2,744.30	2,957.81
TOTAL RECEIPTS	\$ 146,083.52	\$ 86,709.78
<b>Disbursements:</b>		
Awards	\$ 1,109.50	\$ 417.84
<i>AJPT</i> —Printing/Distribution (Note 6)	71,156.33	35,055.10
<i>AJPT</i> —Editorial Support	20,000.00	20,000.00
Newsletter: <i>The Auditor's Report</i> (Note 7)	10,426.42	9,477.59
Midyear Meeting	66,084.74	36,944.49
Annual Meeting Costs (Note 8)	805.60	2,549.64
Committee Travel	117.00	732.48
Council Fee	1,000.00	1,000.00
Miscellaneous Expenses (Postage)	1,850.23	904.72
TOTAL DISBURSEMENTS	\$ 172,549.82	\$ 107,081.86
Cash Increase (Decrease)	\$ (26,466.30)	\$ (20,372.08)
Beginning Cash Balance	\$ 41,850.01	\$ 62,222.09
Ending Cash Balance	\$ 15,383.71	\$ 41,850.01

*Notes:*

1. The Statement of Cash Receipts, Disbursements, and Cash Balance was compiled from monthly financial reports received from the American Accounting Association national office.
2. As of October 26, 2001, there were 1,173 U.S. members and 431 foreign members; 1,487 were full members and 117 were associate members. As of August 31, 2000, there were 1,177 U.S. members and 417 foreign members; 1,469 were full members and 125 were associate members.
3. The royalty payments are received without definite certainty and are thus volatile from year to year.
4. FY 2001 receipts represent the following reimbursements to the Section: \$15,754.37 from the University of Waterloo for costs associated with the 1999 Supplement of *AJPT*, \$29,045.20 from KPMG to cover a portion of the 2001 Midyear Meeting deficit (\$21,284.23) and the cost of the 2001 Doctoral Consortium (\$7,760.97), and \$10,747.36 from the University of Southern California, Universiteit Maastricht, Nanyang Technological University, and the University of New South Wales for costs associated with the 2000 Supplement of *AJPT*. FY 2000 receipts represent a reimbursement to the Section from KPMG to cover the 2000 Midyear Meeting deficit of \$10,309.41 and the 2000 Doctoral Consortium cost of \$6,010.08.
5. Reflects the new allocation of interest income from the AAA headquarters to the Section, effective 1999.
6. This item includes *AJPT* costs related to printing, mailing, and AAA staff support (primarily typesetting). FY 2001 disbursements relate to the following issues of *AJPT*: Supplement 1999 (printing and mailing only), Fall 2000, March 2001, Supplement 2000, and September 2001. It is unusual to have disbursements related to five issues occurring in a fiscal year (two or three issues is typical). FY 2000 disbursements relate to the following issues of *AJPT*: Fall 1999, Spring 2000, and Supplement 1999 (AAA staff support only). Costs per issue (after controlling for the number of pages in an issue) are increasing over time.
7. Expenses in both years reflect costs associated with printing and distributing three issues of *The Auditor's Report*.
8. FY 2001 disbursements primarily reflect excess of Section luncheon costs over lunch ticket sales. FY 2000 also includes luncheon speaker's fee.

*(Continued on page 25)*

**Auditing Section Statement of Cash Receipts, Disbursements, and Cash Balance**

(Continued from page 24)

**American Accounting Association—Auditing Section  
Statement of Cash Receipts, Disbursements, and Cash Balance (Note 1)  
1st Three Months of FY 2002 (2001)—Ended November 30, 2001 (2000)**

	FY 2002 9/1/01–11/30/01 (Actual)	FY 2001 9/1/00–11/30/00 (Actual)
<b>Receipts:</b>		
Membership Dues (Note 2)	\$11,382.00	\$6,588.50
Journal Subscriptions	9,855.00	8,875.00
Sales of Publications/Royalties	366.00	311.57
Journal Submission Fees	1,000.00	1,650.00
CPE (net)	500.00	750.00
Reimbursements (Note 3)	—	15,754.37
Midyear Meeting Registration (Note 4)	11,455.00	9,265.00
Miscellaneous Receipts	92.12	409.92
TOTAL RECEIPTS	\$34,650.12	\$43,604.36
<b>Disbursements:</b>		
Awards	—	—
<i>AJPT</i> —Printing/Distribution (Note 5)	\$ 77.69	\$10,682.37
<i>AJPT</i> —Editorial Support	—	—
Newsletter: <i>The Auditor's Report</i> (Note 6)	240.00	452.12
Midyear Meeting	—	—
Meeting Rooms—Annual Meeting	—	—
Committee Travel	—	—
Miscellaneous Expenses	54.91	243.61
TOTAL DISBURSEMENTS	\$ 372.60	\$11,378.10
Cash Increase (Decrease)	\$34,277.52	\$32,226.26
Beginning Cash Balance as of September 1	\$15,383.71	\$41,850.01
Ending Cash Balance	\$49,661.23	\$74,076.27

*Notes:*

1. The Statement of Cash Receipts, Disbursements, and Cash Balance was compiled from monthly financial reports received from the American Accounting Association national office.
2. As of November 30, 2001 (2000) there were 1,491 (1,509) full members and 119 (131) associate members; 1,177 (1,204) were U.S. members and 433 (436) were foreign members.
3. FY 2001 receipt reflects reimbursement from the University of Waterloo for the 1999 Supplement of *AJPT*.
4. The difference from prior year is attributable to more Midyear 2002 registration fees collected prior to November 30 this year relative to prior year via online registration.
5. FY 2002 disbursements reflect *AJPT* postage only. FY 2001 disbursements reflect the printing, distribution, and mailing costs (\$10,682.37) for the 1999 Supplement of *AJPT*. Note that the AAA Staff charges (\$5,075.00) for that issue were allocated to the Section in August 2000. The Section received reimbursement for these costs—see Note 3.
6. FY 2002 disbursements reflect AAA Staff Support (typesetting) only as *The Auditor's Report* is now online only. FY 2001 disbursements reflect mailing costs for the Fall 2000 issue of *The Auditor's Report*.

**CALL FOR PAPERS**  
**15TH SYMPOSIUM ON AUDITING RESEARCH**  
**OFFICE OF ACCOUNTING RESEARCH**  
**UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN**  
**OCTOBER 17-19, 2002**

The Fifteenth University of Illinois Symposium on Auditing Research will be held on the Urbana-Champaign campus during October 17-19, 2002. 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 Peecher**  
Deloitte & Touche Teaching Fellow  
Fifteenth Symposium on Auditing Research  
Department of Accountancy  
University of Illinois at Urbana-Champaign  
1206 S. Sixth Street  
Champaign, IL 61820

**Submission deadline: June 15, 2002**

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 Peecher at (217) 333-4542 or via email at [peecher@uiuc.edu](mailto:peecher@uiuc.edu).