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Report of the President

By Karla Johnstone



We are settling in here at the University of Wisconsin – Madison to the routines of the Fall semester: football, beautiful foliage, and students eager to learn and be inspired as they prepare to enter the profession. I wish each of you an enjoyable and productive semester.

I am honored and humbled to assume the role of President of the Auditing Section. I appreciate the strong leadership of Chris Hogan (Michigan State University) during her term as President. She leaves a legacy of thoughtful guidance; I am lucky to follow her in a Section that is well-organized and has excellent members that are willing to take part in our shared governance. I am enjoying working with Rick Hatfield (University of Alabama) as he ‘learns the ropes’ during this year in which he is serving as Vice President – Academic. Further, I am deeply grateful to Dan Sunderland (Deloitte) for making his valuable time available to us as he is serving as Vice President – Practice. Engaging deeply with the profession is one of the most important and unique characteristics of the Auditing Section and I very much appreciate the willingness of the Firms to routinely provide us with access to both their economic resources and some of their most valuable practitioners.

Executive Committee

In addition to these individuals, the other members of the Executive Committee are capably serving to help us achieve our mission, which is ***to further the discipline and profession of auditing and assurance services through education, research, and service.*** These generous individuals include the following: Keith Jones (Treasurer, George Mason University), Susan Scholz (Secretary, University of Kansas), Mark Taylor (Historian, Case Western Reserve University), and Urton Anderson (Council Representative, University of Kentucky). Please join me in thanking them when you see them over the course of the next year. These individuals deserve our gratitude because they spend a great deal of time ‘behind the scenes’ to keep the Section running effectively to achieve its mission.

Next, I will summarize a variety of recent and upcoming events and initiatives in our Section.

2016 Annual Meeting

The Annual Meeting in New York was fast-paced and content rich. I extend my appreciation and thanks to the planning committee led by Co-Directors Barbara Grein, Lisa Gaynor, Martin Wu, and Zian Zhou. They were assisted by Vice-Directors Brian Bratten, David Wood, and Nate Stephens. I thank all of these individuals for their efforts in coordinating the review process, organizing concurrent sessions and panel sessions, assigning moderators and discussants, and assisting the AAA staff in ensuring a valuable experience for all of our members. Please remember to volunteer to serve as a reviewer, discussant, or moderator at our upcoming Midyear meeting and next year's Annual Meeting.

Center for Audit Quality (CAQ) Symposium and Other CAQ News

Immediately prior to the Annual Meeting, the CAQ hosted its Annual Symposium. The Symposium brings together senior practice leaders and academics for a dialogue on issues that are of importance to the profession. The Symposium featured three panel discussions that Section members might find of interest:

- *Innovative Approaches to the Development of Auditor Talent* moderated by Tim Ryan (PwC) with Jeff Burgess (Grant Thornton), Jon Davis (University of Illinois), Lynne Doughtie (KPMG), Cathy Engelbert (Deloitte), Chris Hogan (Michigan State University), and Carolyn Slaski (EY)
- *ICFR – Auditor and Preparer Challenges* moderated by Joe Ucuzoglu (Deloitte), Wendy Cama (Crowe Horwath), Mike Gallagher (PwC), Scott Marcello (KPMG), and Linda Zukauckas (American Express)
- *Research in Auditing – Insights from Academics and Practitioners*, moderated by Dan Sunderland (Deloitte), with Chris Dinkel (PwC), Sue Scholz (University of Kansas), and Jay Thibodeau (Bentley University).

Videos of these panel discussions and summaries of the academic-practitioner breakout sessions are available on the CAQ's website www.TheCAQ.org/research/caq-annual-symposium.

You may obtain additional CAQ resources by accessing (free of charge) the following website (www.TheCAQ.org). In addition, the CAQ has developed two video vignettes for a panel on Auditor and Preparer Challenges with ICFR. These videos provide insights into the types of conversations that occur when auditors are assessing the internal controls used by management. In these scenarios—a meeting between the auditor and the corporate controller, and a meeting between the auditor and the partner—the focus is on a management review control over goodwill impairment estimates. The CAQ is making the videos available to academics for use in their curriculum. While the focus is on audits of ICFR, the discussions captured in the videos can be used in other teaching situations as they offer insight into communications and interviewing techniques, professional skepticism, and how to navigate conversations on difficult and sensitive issues. The vignettes can be found on the CAQ website at <http://www.thecaq.org/video-vignettes-classroom-and-training-resources>.

The [Request for Proposals](#) for the Auditing Section-CAQ Access to Audit Personnel program was released at the Annual Meeting. Proposals are due on February 1, 2017. Starting in 2017, the program will accept proposals that feature tenured faculty as the principal investigator, but will still allocate 4 – 5 awards for doctoral students and tenure track professors.

AICPA Assurance Research Advisory Group

For those of you interested in conducting research on private company audits, the AICPA issued a Request for Proposals for its newly formed [Assurance Research Advisory Group](#) (ARAG). The AAA sent an email alerting our members to this unique and valuable opportunity. The deadline for proposals is October 14. Under this program, researchers will have an opportunity to conduct research on anonymized AICPA Peer Review data (pending approval from the firms), and obtain access to auditors from regional and national audit firms (other than the eight largest audit firms) that volunteer to assist ARAG for research that focuses on domestic private company assurance engagements. Three Auditing Section members have kindly agreed to serve on the research proposal review team: Mike Wilkins, Randy Elder, and Joe Brazel. Thank you.

Also be aware that the CAQ coordinated its second annual #AuditorProud social media blitz day beginning on September 22nd to generate buzz around the profession and help recruit the next generation of auditors. I encourage all of you to share the blitz with your students, follow @DiscoverAudit on Twitter and Instagram, and check out the www.DiscoverAudit.org website.

Assorted Committee Leadership and Activities

- The ***Auditing Standards Committee*** (led by Pamela Roush, Marshall Geiger, and Karl Hackenbrack as Chair, Vice-Chair, and Past-Chair, respectively) will continue to monitor and selectively comment on relevant auditing standards developments. The members of the committee have provided their respective VITAs to Professor Roush to ensure that we have the leading research experts assigned to various teams according to topical specialties.
- The ***Research Committee and Communications Committee*** eagerly and capably bring us tweets of research summaries from our continually-updated database. We appreciate the leadership of Carol Dee (Chair – Research), James Long (Chair - Communications), and Glen Gray (Webmaster) to summarize and highlight our various teaching, research, and service opportunities using a variety of avenues. You may access the research summaries database at www.AuditingResearchSummaries.org and you can follow on Twitter at @AuditResearch.

2017 Midyear Meeting

The 2017 Midyear Meeting will occur in Orlando, Florida from January 12 – 14. We owe a great deal of gratitude to KPMG for continued support of the Midyear Meeting and the preceding Doctoral Consortium. Both events will be held at The Rosen Centre Hotel in Orlando, Florida. The planning committee, with the help of many individuals at the AAA, have been working diligently to develop an excellent meeting. The Co-Directors for the 2017 Midyear Meeting include Noel Harding and Ling Lisic. They are assisted by Vice-Chairs Tina Carpenter, Margaret Christ, and Jaime Schmidt. The meeting will consist of keynote, plenary, and concurrent sessions dealing with a wide variety of contemporary topics.

Please direct any questions to Noel Harding (n.harding@unsw.edu.au) or Ling Lisic (llisic@gmu.edu).

We will continue our tradition of hosting the Doctoral Consortium and the Excellence in Auditing Education workshop the day prior to the beginning of the Midyear Meeting. The Chair of this year's Doctoral Consortium, Linda Myers, is working on the program with the assistance of Vice-Chair Jackie Hammersley. In addition, we have formed a new committee to plan and execute the Excellence in Auditing Education workshop. The gracious individuals who have agreed to serve are Jason Smith (Past-Chair), Sandra Shelton (Chair), and Helen Brown (Vice-Chair). Margot Cella of the CAQ is also involved in planning, including coordinating content and staffing practice professionals. The theme of the workshop is "Developing Critical Thinking Skills in ICFR Judgments". Given recent PCAOB inspections that continue to identify high levels of deficiencies in ICFR audits, this is a timely and important topic. The committee is working in conjunction with several audit firm professionals to develop engaging content relating to how firms **are** addressing ICFR processes, with a specific focus on the critical thinking skills in ICFR judgments that practitioners hope students are developing in their audit education. The committee is also working with academics to identify teaching cases related to ICFR that have been successfully utilized. The committee's goal is to provide several cases focused on ICFR processes that academics can use in both undergraduate and graduate courses in auditing, and to discuss how academics can incorporate these cases in the classroom to to develop critical thinking skills in their students.

The Excellence in Auditing Education workshop previously had been the responsibility of the Education Committee (Ed Douthett and Marsha Keune; Chair and Vice-Chair, respectively), so this new structure will free up resources to enable the committee to focus on developing topics and obtaining panelists for the Midyear and Annual meetings, identifying relevant research articles and other instructional resources for promotion in the Auditor's Report, and special projects that serve the educational and pedagogical interests of the Section.

Treasurer's Report (Keith Jones)

The Section is doing well financially. Our fiscal goal is to collect enough money to execute on the missions of the Section. Our cash balance as of May 31, 2016 was \$57,575, which is down seven percent from the prior year. However, we have some deferred cash receipts that will more than offset the slight decrease in cash. Membership dues are up \$5,389 from 2015 due to a four percent increase in membership. Revenue from journal submission fees is up \$12,125 (or 102 percent) due to an increase in submission fees and the volume of submissions. Meeting registration revenue increased \$4,395 (or three percent), which is consistent with our growth. Meeting revenue includes registration from the Midyear Meeting, Auditing Bootcamp, Annual Meeting lunch fees, and CPE registration. Meeting expenses increased \$2,261 (or two percent), which is also consistent with our growth.

Closing Remarks

In closing, I wish to express my gratitude for being chosen to serve as the President of the Auditing Section. I remember feeling a sense of awe at many of the former Presidents – accomplishing active research agendas while simultaneously leading the Section with passion. I will work diligently and

enthusiastically to continue this tradition. In addition, I encourage each of you to consider volunteering in the future. Doing so will build your network and provide you with the opportunity to give back to our Section, which I believe is instrumental in helping its members achieve noteworthy professional goals.

Best wishes,

Karla Johnstone

President

PCAOB Update

By Martin F. Baumann – PCAOB Chief Auditor, Gregory Dima Andriyenko – Associate Chief Auditor and Elena Bozhkova – Assistant Chief Auditor

Introduction

This Update addresses selected PCAOB developments since the Summer 2016 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed include:

- Staff Inspection Brief on 2016 Inspections of Auditors of Public Companies
- Staff Inspection Brief on 2016 Inspections of Auditors of Broker-Dealers
- Scholarships for 2016-2017 Academic Year
- Annual Report on Inspections of Broker-Dealer Auditors
- Cooperative Agreement with New German Auditor Oversight Body
- Sanctions for Broker-Dealer Audit Independence Violations

PCAOB Developments

Staff Inspection Brief on 2016 Inspections of Auditors of Public Companies

On June 14, 2016, the Board issued a staff inspection brief detailing the scope, focus, and objectives of its ongoing 2016 inspections of auditors of public companies and other issuers. In 2016, the PCAOB continues to focus on public company audit areas where inspectors have found frequent and recurring deficiencies in recent inspections. This includes:

- Auditing internal control over financial reporting
- Assessing and responding to risks of material misstatement
- Auditing accounting estimates, including fair value measurements

New to the 2016 inspection cycle is a focus on the auditors' implementation of a newly updated auditing standard for related party transactions, Auditing Standard 2410 (currently AS 18), which became effective for audits of financial statements for fiscal years beginning on or after December 15, 2014. The PCAOB also considers the current economic environment and related developments in determining the scope and focus of inspections.

The inspection brief is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/Inspection-Brief-2016-3-Issuers.pdf>

Staff Inspection Brief on 2016 Inspections of Auditors of Broker-Dealers

On June 14, 2016, the Board issued a staff inspection brief detailing the scope, focus, and objectives of its ongoing 2016 inspections of auditors of brokers and dealers.

These 2016 inspections are focusing on audit areas and attestation procedures where inspectors previously found deficiencies, as well as auditor independence and engagement quality review. PCAOB inspectors also are reviewing the audit work for related party transactions to evaluate compliance with the newly updated Auditing Standard 2410 (currently AS 18).

Inspections staff are focusing on the following broker-dealer audit areas and attestation procedures in 2016:

- Auditor independence
- Financial statement areas with recurring deficiencies, including revenue, the assessment and response to risks of material misstatement due to fraud, financial statement presentation and disclosures, and fair value measurements
- Audit procedures for related party transactions
- Audit procedures on the supporting schedules to the financial statements
- Procedures for the attestation engagements: the examination of compliance reports and the review of exemption reports
- Engagement quality review

The inspection brief is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/Inspection-Brief-2016-4-Broker-Dealers.pdf>

Scholarships for 2016-2017 Academic Year

On July 21, 2016, the Board announced 72 recipients of \$10,000 merit scholarships that are intended to encourage undergraduate and graduate students to pursue careers in audit.

The Sarbanes-Oxley Act requires that monetary penalties imposed by the PCAOB in its disciplinary proceedings be used to fund a merit scholarship program for students in accredited accounting degree programs. The PCAOB scholarship program was created to identify eligible students for scholarships and award funds through the students' educational institutions.

Each participating educational institution nominates a scholarship recipient from students enrolled in its accounting degree program. To qualify, students must:

- Be enrolled in a bachelor's or master's degree program in accounting
- Demonstrate interest and aptitude in accounting and auditing
- Demonstrate high ethical standards

A description of the program, along with information on the nomination process, the selection of nominating institutions, and other details can be found on the PCAOB website at:

http://pcaobus.org/About/Pages/Academic_Scholarship.aspx.

Annual Report on Inspections of Broker-Dealer Auditors

On August 18, 2016, the Board issued an annual report on its interim inspection program for auditors of brokers and dealers. (PCAOB staff is currently working to develop, for the Board's consideration, a rule proposal to establish a permanent inspection program.) The report shows high levels of deficiencies similar to inspection results in previous years.

PCAOB inspectors identified deficiencies in the work of 96 percent of the audit firms inspected. Auditor independence appeared to be impaired in 7 percent of the inspected audits, compared to 25 percent in 2014.

PCAOB inspectors found deficiencies in 77 percent of the audits covered by the inspections during 2015, down from 87 percent in 2014. Deficiencies in auditing revenue were identified in 70 percent of the audits, and deficiencies in auditing fair value measurements were identified in 44 percent of the audits where this audit area was reviewed.

The report is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/BD-Interim-Inspection-Program-2016.pdf>

Cooperative Agreement with New German Auditor Oversight Body

On August 24, 2016, the Board announced a cooperative agreement with the German Auditor Oversight Body (AOB), effective immediately. The agreement allows for cooperation between the PCAOB and the AOB in the oversight of audit firms subject to the regulatory jurisdictions of both regulators.

The agreement with the AOB provides a framework for joint inspections and allows for the exchange of confidential information in accordance with applicable German law and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 in the United States. An agreement on data protection also is part of the cooperative arrangement with Germany. These agreements are consistent with the prior agreements between the PCAOB and AOB's predecessor, the German Auditor Oversight Commission.

The agreements are available on the PCAOB website at:

<http://pcaobus.org/International/Pages/RegulatoryCooperation.aspx>.

Sanctions for Broker-Dealer Audit Independence Violations

On September 15, 2016, the Board sanctioned three audit firms, and engagement partners at two of those firms, for violating independence requirements in audits of broker-dealers. The PCAOB also

obtained admissions to the facts, findings, and violations from two of the firms and the two engagement partners.

The three firms prepared financial statements for broker-dealer audit clients, and also maintained and prepared the clients' accounting records. Prior to the enforcement actions, two of the firms and the respective engagement partners had received PCAOB inspection findings noting that their conduct impaired their independence, yet they continued to prepare their clients' financial statements. These two firms and partners admitted to the facts, findings, and violations in the orders. The orders represent the first instances in which the PCAOB has obtained admissions from auditors who violated independence requirements in their audits of broker-dealers.

The settled disciplinary orders are available on the PCAOB website at:

<https://pcaobus.org/News/Releases/Pages/enforcement-three-firms-two-partners-independence-091516.aspx>

GAO Update

**By Gary Engel, Managing Director, Financial Management and Assurance
and Maxine Hattery**

CG Forum: Data Analytics to Address Fraud and Improper Payments

Reducing improper payments—such as payments to ineligible recipients or duplicate payments—is critical to safeguarding federal funds, but the federal government has consistently been unable to determine the full extent of improper payments and whether its actions to reduce them are appropriate. In fiscal year 2015, federal agencies estimated making almost \$137 billion in improper payments, a number that has increased considerably in recent years.

At the Comptroller General Forum on Data Analytics to Address Fraud and Improper Payments, convened on September 21, 2016, experts from federal and state agencies and the private sector offered case-study examples and discussed the challenges associated with developing and maintaining a data-analytics program.

To advance the intergovernmental dialogue, the forum highlighted three main topics in panel discussions:

- Key components and suggested practices for establishing and refining data-analytics programs
- Case-study examples of analytics tools, techniques, and methods including: data visualization, dashboards, geographic mapping, social-network analysis, link analysis, text mining, and predictive analysis
- Opportunities for collaboration and future partnerships

GAO plans to issue a product in early 2017 summarizing the discussions and outcomes of the forum.

See also: *Data and Analytics Innovation: Emerging Opportunities and Challenges*, Highlights of a Forum Convened by the Comptroller General of the United States, GAO-16-659SP, Sept. 20, 2016.

Leading Practices: Framework for Managing Fraud Risks in Federal Programs

Fraud poses a significant risk to the integrity of federal programs and erodes public trust in government. Managers of federal programs maintain the primary responsibility for enhancing program integrity. Legislation, guidance by the Office of Management and Budget, and new internal control standards have increasingly focused on the need for program managers to take a strategic approach to managing improper payments and risks, including fraud.

To help managers combat fraud and preserve integrity in federal programs, GAO issued the Fraud Risk Management Framework in July 2015. The framework identifies leading practices and conceptualizes

them into a risk-based framework. It encompasses control activities to prevent, detect, and respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks. In addition, the Framework highlights the importance of monitoring and incorporating feedback, which are ongoing practices that apply to all four of the components described below.

1. Commit - Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.
2. Assess - Plan regular fraud risk assessments and assess risks to determine a fraud risk profile.
3. Design and implement - Design and implement a strategy with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.
4. Evaluate and adapt - Evaluate outcomes using a risk-based approach and adapt activities to improve fraud risk management.

To develop the Fraud Risk Framework, GAO conducted three focus groups of antifraud professionals and interviewed federal Offices of Inspector General, national audit offices from other countries, the World Bank, the Organisation for Economic Co-operation and Development, and antifraud experts representing private companies, state and local audit associations, and nonprofit entities. GAO also conducted an extensive literature review and obtained independent validation of leading practices from program officials.

GAO's Fraud Risk Framework can serve as a guide for program managers to use when developing efforts to combat fraud in a strategic, risk-based manner.

A Framework for Managing Fraud Risks in Federal Programs, GAO-15-593SP, July 28, 2015.

Citizenship and Immigration Services: A Case for the Fraud Framework

The Department of Homeland Security's U.S. Citizenship and Immigration Services (USCIS) has taken steps intended to enhance fraud detection and mitigation activities for the Employment-Based Fifth Preference Immigrant Investor Program and address previous GAO recommendations.

USCIS is also taking steps to collect more information through new, revised forms and expanding its use of background checks. However, fraud mitigation was hindered by a reliance on voluminous paper files. For example, many of the files were several thousand pages long and would take significant time to review. According to USCIS documentation, the program anticipates receiving approximately 14 million pages of supporting documentation from its regional-center applicants and immigrant investor petitioners annually. Recognizing these limitations, USCIS has taken preliminary steps to study digitizing and analyzing the paper files submitted by petitioners and applicants to the program; however, these efforts are in the early stages.

USCIS incorporated selected leading fraud risk management practices into its efforts and GAO found that its actions align with two key components of the Fraud Risk Framework: (1) commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management such as by providing specialized fraud awareness training; and (2) assess risks by planning and completing regular fraud risk assessments.

However, GAO found that USCIS had not developed a fraud risk profile, an overarching document that guides its fraud management efforts, as called for in the Fraud Risk Framework. GAO recommended that USCIS develop a profile that aligns with leading practices identified in the framework, and the Department of Homeland Security concurred.

Immigrant Investor Program: Progress Made to Detect and Prevent Fraud, but Additional Actions Could Further Agency Efforts, GAO-16-828, Sept. 13, 2016.

GAO podcast: "Detecting Fraud in the Immigrant Investor Visa Program"

<http://blog.gao.gov/2016/09/26/detecting-fraud-in-the-immigrant-investor-visa-program-podcast/>.

Improper Payments: CFO Act Agencies Need to Improve Compliance

There has been a significant increase in estimated improper payments in recent years, and additional efforts are needed to help ensure that federal agencies and inspectors general (IG) monitor individual programs' improper payment rates. Annual reports prepared by the IGs assessing agencies' compliance under the Improper Payments Elimination and Recovery Act of 2010 (IPERA), which are the focus of this review, play a pivotal role in this effort.

GAO reports that, for fiscal year 2014, 15 of the 24 Chief Financial Officers Act agency IGs determined that their agencies did not comply with criteria in the Improper Payments Elimination and Recovery Act of 2010 (IPERA). This is the largest number of CFO Act agencies reported as noncompliant under IPERA since the requirement for IGs to report on their agencies' compliance was implemented in fiscal year 2011.

In fiscal year 2014, IGs reported 38 programs accounting for \$100.6 billion in estimated improper payments as responsible for instances of noncompliance. Agency noncompliance for fiscal year 2014 was largely due to agencies failing to meet reduction targets or report error rates at less than 10 percent for all programs. If the 5 agencies with programs exceeding 10 percent error rates had reported error rates under the threshold set in IPERA, the governmentwide improper payment estimate would have been \$23.1 billion or 18.6 percent, lower.

In addition, 18 programs at 9 agencies were reported as noncompliant with IPERA criteria by their agencies' IGs for at least 3 consecutive years as of fiscal year 2014. Agencies with programs reported as noncompliant for 3 consecutive years are required to submit proposals to Congress to reauthorize the programs or change the statutes that established them. However, GAO found that only 3 agencies submitted such information to Congress. GAO recommended that four agencies submit proposals as

required to Congress in response to 3 years of noncompliance with IPERA criteria. Recommendations were not made to the remaining two agencies due to delays in the timing of their noncompliance determinations. When agencies do not report to Congress as required, Congress is limited in its ability to monitor the implementation of IPERA and ensure that its intent is being fulfilled.

Improper Payments: CFO Act Agencies Need to Improve Efforts to Address Compliance Issues, GAO-16-554, June 30, 2016.

Recent Publications of Interest

Tax Debt Collection: IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection, GAO-16-787, Sept. 13, 2016.

Whistleblower Protection: DOD Has Improved Oversight for Reprisal Investigations but Can Take Additional Actions to Standardize Process and Reporting, GAO-16-860T, Sept. 7, 2016

Regulatory Guidance Processes: Treasury and OMB Need to Reevaluate Long-standing Exemptions of Tax Regulations and Guidance, GAO-16-720, Sept. 6, 2016.

SEC Conflict Minerals Rule: Companies Face Continuing Challenges in Determining Whether Their Conflict Minerals Benefit Armed Groups, GAO-16-805, Aug. 25, 2016.

DOD Financial Management: Improvements Needed in the Navy's Audit Readiness Efforts for Fund Balance with Treasury, GAO-16-47, Aug. 19, 2016.

Supplemental Security Income: SSA Provides Benefits to Multiple Recipient Households but Needs System Changes to Improve Claims Management, GAO-16-674, Aug. 17, 2016.

Defense Budget: DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations, GAO-16-537, Aug. 16, 2016.

Consumer Financial Protection Bureau: Observations from Small Business Review Panels, GAO-16-647, Aug. 10, 2016.

401(K) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants, GAO-16-433, Aug. 9, 2016.

DATA Act: Improvements Needed in Reviewing Agency Implementation Plans and Monitoring Progress, GAO-16-698, July 29, 2016.

Inland Waterways Fuel Tax: Additional Data Could Enhance IRS's Efforts to Ensure Taxpayer Compliance, GAO-16-682, July 29, 2016.

Department of Energy: Whistleblower Protections Need Strengthening, GAO-16-618, July 11, 2016.

Tax Expenditures: Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight, GAO-16-622, July 7, 2016.

Current Issues in Auditing

By Greg Jenkins

Virginia Tech University

Current Issues in Auditing, published by the Auditing Section of the American Accounting Association. (<http://aaapubs.org/loi/ciia/>), contains articles, commentaries, and practitioner summaries of interest to both the academic and practitioner community. Articles are published online very soon after they are accepted, so please check the website often to view newly published articles.

Also, please consider submitting your work to *Current Issues in Auditing* (website for authors: <http://ciia.allentrack.net/cgi-bin/main.plex>). We invite regular articles, commentaries related to issues confronting the auditing profession, practitioner summaries of research articles you have published, and educational resources. We also encourage articles that result from collaboration among members of the academic and professional communities. So, please consider reaching out to those you know in the profession to begin exploring projects of common interest.

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

Recently accepted and published articles, practitioner summaries, and commentaries include:

- The Effects of Manager-Auditor Affiliation and PCAOB Inspection Reports on Audit Committee Members' Auditor Selection;
- Audit Firm Perspective On Audit Firm Rotation And Enhancing Independence: Evidence From PCAOB Comment Letters, and;
- Factors Associated with Auditors' Intention to Train on Optional Technology .

Educational Resources

Finally, we have a section of the journal that includes brief teaching cases appropriate for use in the audit classroom. The following provides some background for this section of the journal:

Instructional Resources will include cases derived from actual or simulated business activity that are in line with the objectives of CIIA and are designed to provide timely instructional resources to auditing instructors. The instructional resources also include specific classroom exercises that are designed to enhance student understanding of current auditing issues. Thus, the resources should address current issues facing the auditing practice community (e.g., new opportunities and challenges, emerging areas, global developments, effects of new regulations or pronouncements, and effects of technological or market developments on audit processes). We define "auditing practice" broadly to include practice-related issues in external auditing, internal

auditing, government auditing, IT auditing, assurance services, and related fields. Instructional resources, inclusive of implementation guidance, should follow the editorial guidelines of CIIA and should be a maximum of 2,500 words. The resources should be designed for immediate use by accounting faculty and should have two self-contained parts: the resource material itself (denoted "Instructional Resource"), and a separate instructor's implementation guide (denoted "Instructional Resource Implementation Guide"). Each section should be submitted in a separate file and should have its own references and footnotes.

Thanks for you continued support of *Current Issues in Auditing* and, again, we invite you to submit your work.

AAA Council Update

By Urton Anderson

University of Kentucky

The AAA Council met on Sunday, August 5th at the Annual Meeting in New York City. Audrey Gramling, 2015-2016 Council Chair, welcomed the incoming segment members and recognized outgoing council members for their service.

AAA Executive Director Tracey Sutherland reflected on the AAA's past 100 years and how we look in the Association's Centennial year. She discussed changes to the AAA Professional Staff, the ongoing renovation of the AAA Headquarters building, the introduction of the new AAA Journal covers, and the latest edition of the AAA History Book. Other items of note include:

- The second "Accounting *IS* Big Data" Conference will take place in September in San Francisco, CA.
- The Cook Prize has been renamed the AAA / J. Michael and Mary Anne Cook / Deloitte Foundation Prize. The Cooks were present for the Monday awards presentation to Markus Ahrens, Billie M. Cunningham, and G. Peter Wilson.
- This year's Annual Meeting has surpassed attendance for prior years.
- The Annual Meeting mobile app was launched for the second year.

Tracey, Bruce Behn, and Julie Smith David also discussed the "Top Things that You Should Know and Share with Members" handout which featured items at the Annual Meeting including the Centennial Celebration Reception, as well as the new AAA video which will be shown at the meeting, the introduction of the new AAA journal covers (which are featured in the Digital Library), the addition of the Academy of Accounting Historians as the latest AAA Section, and the AAA snapshot.

Upcoming Council activities were discussed, including the Council Ballot Committee, the Council Committee on Awards Committee, and the Council Governance Task Force which will look at creating a Council Guest Policy and a review of Segments. The ongoing need for strong communication between Council representation and Segment leadership was stressed.

Following the August meeting, the election for Council Ballot Committee Chair took place via electronic voting. Urton Anderson was elected and accepted the position as the 2016-2017 Council Ballot Committee Chair. Thanks to Graham Gal and Charles Cullinan who also participated in the election.

The Call for Nominations for the Board of Directors positions opened on August 29th. Please take the time to nominate qualified candidates for these very important positions. Also note that Council will select the candidates for the **Director – Focusing on Membership** position at the November Council Meeting.

The November Council meeting will be in San Diego on Saturday, November 5th.

Have you Seen...?

**Tamara Lambert, Lehigh University
Stephen Fuller, Lehigh University
James D. Whitworth, University of South Florida**

“Differences in Auditors’ Materiality Assessments When Auditing Financial Statements and Sustainability Reports.” By Robyn Moroney and Ken Trotman. *Contemporary Accounting Research* 33(2): 551-575.

This study investigates whether the materiality of misstatements (of equal percentage magnitude) is assessed differently by auditors in financial statements versus sustainability reports. The authors specifically address misstatements that modestly exceed the common benchmark of 5%, frequently considered in financial statement audits. The study also explores whether qualitative factors such as the possibility of a contract breach, or the impact on a community, affect such materiality assessments. The authors hypothesize that a misstatement modestly exceeding 5% will be assessed as more material for financial statements (than for a sustainability report) due to greater availability of materiality guidance, higher liability concerns, and greater need to justify materiality decisions for financial statement audits. They also hypothesize that qualitative factors are more likely to affect sustainability reporting, than financial statement, materiality assessments. The authors conduct an experiment with 82 Big 4 audit managers and seniors. The presence of a contract breach and community impact are each manipulated between subjects. Participants provide two within-subjects materiality assessments for financial statement and sustainability report misstatements of equal magnitude. As hypothesized, results indicate that materiality assessments are higher for financial statement misstatements and provide evidence that qualitative factors are more likely to influence materiality assessments for sustainability reporting.

“Encouraging Professional Skepticism in the Industry Specialization Era.” By Jonathan Grenier. *Journal of Business Ethics* 135 (4): 1-16.

The study addresses how auditor industry specialization impacts professional skepticism when there is no indication of increased misstatement risk in the audit. The author theorizes that industry specialist auditors may use their extensive knowledge of the domain to more easily identify plausible non-misstatement reasons for unusual fluctuations in financial statement information. Accordingly, he predicts that specialist auditors will act less skeptically to unexpected fluctuations in financial statement ratios than non-specialists. He also predicts that prompting the auditor to act more skeptically will increase skepticism more for specialist auditors than non-specialist auditors because of the higher baseline skepticism of non-specialists. The author conducted an experiment wherein 171 (primarily Big-4) specialist and non-specialist auditors performed an analytical review task involving a ratio fluctuation for which plausible misstatement and non-misstatement explanations existed. Participants, ranging in rank from staff to partner, were prompted to either evaluate evidence skeptically, to engage in critical assessment of their own judgments, or they received no prompt (control). All participants provided their

own possible explanations for the fluctuation and assessed the risk of misstatement. Results suggest a potential disadvantage of increased auditor industry specialization.

“The Impact of Section 302 and 404(b) Internal Control Disclosures on Prospective Investors’ Judgments and Decisions: An Experimental Study.” By Bryan Church and Arnold Schneider.
International Journal of Auditing 20 (2): 175-185.

This study investigates whether investors’ willingness to invest in a company is affected by disclosures concerning internal control effectiveness made by its management and auditors. The authors predict that management disclosure of a material weakness in internal controls decreases willingness to invest compared to disclosure of no material weaknesses. They also predict that management’s voluntary disclosure of a significant deficiency increases willingness to invest more than disclosure of no deficiencies when each are followed by the auditor issuing an unqualified opinion on internal controls. An experiment was conducted using 78 experienced accountants as proxies for sophisticated investors. Participants each gave two assessments of their willingness to invest in a company, first after reviewing management’s 302 disclosure on effectiveness of internal control, and then, after reviewing the auditor’s 404(b) opinion on internal controls. Management’s assessment was varied between subjects (no deficiency, significant deficiency, or material weakness) as was the auditor’s opinion (unqualified or adverse) with certain implausible combinations omitted. Results confirm that management disclosure of a material weakness lessens investors’ willingness to invest. Interestingly, the authors also found that when the auditor’s opinion on internal control is unqualified, willingness to invest increased more when management had previously disclosed a significant deficiency than when it had not. Additional analyses indicate investment decisions were mediated by investors’ perceptions of financial statement reliability and management credibility.

“Audit Report Restrictions in Debt Covenants.” By Krishnagopal Menon and David Williams.
Contemporary Accounting Research 33 (2): 682-717.

This study examines the value of the external audit to an outside stakeholder group that is often overlooked, private debt issuers. In particular, it considers under what conditions private debt issuers include a going concern restriction among their debt covenants, finding that it occurs in almost nine percent of private loans. The authors find that the likelihood of a going concern covenant restriction is associated with lower credit quality and a longer loan period. Additionally, they find that a going concern restriction is positively associated with an auditor choice covenant. Companies with a going concern covenant are also charged a higher audit fee and are more likely to ultimately receive a going concern report, although the auditor is generally more conservative in issuing a going concern to a company with a going concern covenant. Taken as a whole, this paper suggests that the audit report is relevant to private debt issuers in riskier scenarios, and that the going concern covenant may influence auditor behavior.

“Real Effects of the Audit Choice.” Asad Kausar, Nemit Shroff and Hal White. *Journal of Accounting and Economics* 62 (1): 157-181.

Examining data from the United Kingdom surrounding a period of staggered relaxation of audit requirements for private companies, this study considers what impact the decision to seek out an external audit has on a private company. Obtaining an audit voluntarily is found to be associated with greater borrowing and investment, better operating performance, and stronger response to investment opportunities. These findings are stronger among more financially constrained companies and weaker among those with alternate ways to mitigate information asymmetry. Interestingly, the *choice* to obtain an audit (when not mandated) conveys information to capital providers, distinct from the verification-related benefits of an audit. The paper argues that mandatory audits may conceal the information content of a company’s choice to undergo an audit.

“Board Structure and Audit Committee Monitoring: Effects of Audit Committee Monitoring Incentives and Board Entrenchment on Audit Fees.” Khondkar Karim, Ashok Robin and Sanghyun Suh. *Journal of Accounting, Auditing, and Finance* 31(2): 249-276.

This study considers whether audit fees are affected by audit committee overlap with the compensation committee and by staggered boards of directors. After controlling for endogeneity, a negative relationship is documented between audit fees and audit committee overlap; while a positive relationship is documented between audit fees and staggered boards. The authors argue that the former is evidence of committee overlap as a symptom of weaker governance, leading to weaker monitoring. In contrast, the latter is argued to be evidence of such firms seeking stronger monitoring in an attempt to avoid reporting-related problems.

Have You Seen These Educational Resources?

Ed Douthett, George Mason University, Chair

Marsha Keune, University of Dayton, Vice Chair

Monika Causholli, University of Kentucky

Herb Chain, St John's University

Instructional Cases for Auditing Courses

[Grimm, S. D., and J. L. Blazovich. 2016. Developing student competencies: An integrated approach to a financial statement analysis project. *Journal of Accounting Education* 35: 69-101.](#)

This project requires a quantitative analysis of a company's financial statements and a written research report. It is designed to develop students' critical thinking and analytical capabilities through the application of course concepts to a real company and could be used in undergraduate and graduate auditing courses for preliminary analytical procedures and risk assessment exercises.

[Igou, A. and M. Coe. Vistabeans Coffee Shop Data Analytics Teaching Case. *Journal of Accounting Education* 36: 75-86.](#)

In this case, students use data analytics software and a sample dataset to gain an understanding of data analytics and how data analytics can be used to answer important business questions from an accountant's perspective. Although the intended audience is accounting information systems course students, the case and/or the dataset could be incorporated into an undergraduate or graduate auditing course risk assessment exercise.

[Popova, V. K. and S. E. Stein. 2016. Trading Styles, Inc.: An Analysis of the Going Concern Assessment. *Issues in Accounting Education* 31 \(3\): 355 – 366.](#)

This case provides students with an opportunity to use real-world information to perform the evaluation of a client's ability to continue as a going concern and would be relevant for both undergraduate and graduate auditing courses.

[Quirin, J. J. and D. O'Bryan. 2016. The Marriage of Sharon and Henry Sawbones: A Forensic Case Illustrating the Use of a Tax Return in a Litigation Advisory Services Context. *Issues in Accounting Education* 31 \(3\): 347 – 354.](#)

This problem-based learning case where students are required to request information from the instructor would be relevant for forensic accounting and auditing courses after students have completed a tax course.

[Shelton, S. W., M. Trendell, and R. Whittington. 2016. Williams Community Hospital: An Internal Auditing Case. *Issues in Accounting Education* 31 \(3\): 337-345.](#)

This internal auditing case provides students with the opportunity to perform audit risk assessment, testing, documentation, and reporting and can be relevant for both internal and external auditing undergraduate and graduate courses.

[Stefaniak, C. M. 2016. Using “The Wave” to Facilitate Participants' Understanding of the Implicit Pressures Associated With the Auditing Profession: 10 \(1\): 11-117.](#)

Using “the wave” (often observed at sporting events) to represent the flow of information, the case encourages discussion about audit-related pressures, the audit risk model, fraud risk, professional responsibilities, and internal controls. It is relevant for undergraduate and graduate auditing courses.

Other Educational Auditing Resources

[Center for Audit Quality \(CAQ\). 2016. CAQ Classroom Resources on Public Company Auditing Topics: A Guide for Academics.](#)

This publication summarizes the many resources (e.g., videos, comment letters, classroom visits, CAQ office visits) available to academics to support education about the accounting profession.

[Center for Audit Quality \(CAQ\). 2016. Discover Audit.](#)

This website provides resources for educators and students on the career opportunities available in auditing.

Other Educational Resources and Program Development

[Bline, D. M., S. Perreault, and X. Zheng. 2016. Do Accounting Faculty Characteristics Impact CPA Exam Performance? An Investigation of Nearly 700,000 Examinations. *Issues in Accounting Education* 31 \(3\): 291-300.](#)

This study is informative to faculty who evaluate faculty candidates and staff courses.

[Brink, A. G., C. S. Norman, and B. Wier. 2016. Attained Education and Promotion in Public Accounting. *Issues in Accounting Education* 31 \(3\): 301-320.](#)

This study provides evidence that a Master’s degree (over undergraduate degrees) has a positive association with promotion in public accounting firms, which will be of interest to faculty who interact with students regarding the decision to pursue a Master’s degree.

[Kern, S. M. and G. J. Weber. 2016. Implementing a “Real-World” Fraud Investigation Class: The Justice for Fraud Victims Projects. *Issues in Accounting Education* 31 \(3\): 255 – 289.](#)

This article describes an outreach program developed at Gonzaga University that provides students with the opportunity to interact with multiple community partners, serve the community, and practice accounting skills. This article will be of interest to faculty interested in developing experiential learning and community outreach opportunities for their accounting curriculum.

[Willis, V. 2016. Using Excel in an Accounting Information Systems Course. *Journal of Accounting Education* 36: 87-99.](#)

This teaching note describes an instructional project where students use peer teaching to learn new functions in Microsoft Excel. While this project was used in an undergraduate Accounting Information Systems course, it can be used in any class where students learn technology and provides information on “key” Excel skills for students to learn.

Twenty-Third Annual Midyear Auditing Section Conference



Dear Members,

Please make plans to attend the [Twenty-third Annual Auditing Section Midyear Meeting](#) in Orlando, Florida January 12-14, 2017.

[Register Online](#) with your AAA Login ID and password. If you have forgotten your Login ID and/or password, [click here](#). (Note that the email address you enter must match your AAA profile.) If you do not receive an email response, contact info@aaahq.org.

The meeting will be held at the Rosen Centre Hotel in Orlando. A limited number of rooms have been reserved at a rate of \$209 per night. **Please make your [Hotel Reservations](#) before December 12, 2016 to take advantage of this special room rate. Register Online for the Early Registration fee of \$295 (\$200 for doctoral students) through December 12**, after which the Registration fee is \$325 (\$230 for doctoral students).

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

This year's program will again include a pre-meeting [Excellence in Auditing Education Workshop](#) sponsored by the Section's Education Committee. The workshop will begin Thursday afternoon at 1:00 pm. The purpose of this Excellence in Auditing Education Workshop is to bring together auditing academics and auditing educators in professional practice to explore best practices relating to developing critical thinking skills in the classroom. Instructors include Sandra Waller Shelton, DePaul University, and others. The separate registration fee for the workshop is \$100 and pre-registration is required. Seating is limited, so register early.

Doctoral Student Registration Information

The [18th Annual Auditing Section Doctoral Consortium](#) chaired by Linda Myers will be held on January 12. The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students, established auditing researchers, and journal editors. The Consortium is open to all Ph.D.

students who have an interest in auditing research. Students may be at any stage in their program. Priority will be given to students who did not attend the 2016 consortium. In the event that there are more than two applicants from a school, we will contact the PhD coordinator to give a rank order of the candidates. There is no cost to apply or attend the Auditing Section Doctoral Consortium, if selected. **Any student wishing to attend must complete the application process.** The deadline for consortium applications is October 31; the organizers will issue invitations to attend by November 14. Alternates will also be notified in case any invited students decide not to attend. To apply for an invitation to the Consortium, complete the [PDF application form](#) and email it to lmyers16@utk.edu.

Please note that the application for the Consortium is separate from registration for the Auditing Section Midyear Meeting which follows the Consortium. Students wishing to register for the Midyear Meeting can do so by registering online by December 12, 2016. The Midyear Meeting student registration fee is \$200 for AAA student members.



We thank the [KPMG Foundation](#) for its continued and generous support in sponsoring the 2017 Auditing Section Midyear Meeting and the 18th Annual Auditing Section Doctoral Consortium.

Make plans now to join us in Orlando in January!

Regards,

Noel Harding and Ling Lisc
2017 Auditing Section Midyear Meeting Co-Chairs

Call for Papers
23rd Annual International Symposium on Audit Research
Crowne Plaza, Coogee, Sydney, Australia
June 16-17, 2017

The 23rd Annual International Symposium on Audit Research (ISAR) will be hosted by UNSW Australia on 16 and 17 June, 2017 in Sydney, Australia. ISAR 2017 is jointly organized by UNSW Australia, Maastricht University (Netherlands), Nanyang Technological University (Singapore) and University of Southern California (USA). The symposium will be held at the Crowne Plaza Coogee Beach - Sydney, Australia.

Scope of Topics

The scope of ISAR is intended to be broad and includes research papers and panels that deal with all aspects of auditing, attestation and assurance. Papers that utilise any of a broad range of research methodologies will be considered.

Paper Submission Deadline and Requirements

Papers should be submitted electronically in Adobe Acrobat or Word formats through our online submission process. Papers and, where appropriate, related research instruments must be received by 31 January 2017. The online paper submission system will be available on the ISAR 2017 website at <http://isarhq.org/ISAR2017.html> about one month before the submission deadline.

Submitted papers should follow the style guidelines of Auditing: A Journal of Practice & Theory. Please pay particular attention to the format and length requirements - the body of the manuscripts should not exceed 7,000 words or approximately 20-25 double-spaced pages. Submitted papers should include an abstract and a title page containing the paper's title and authors' name and affiliations. Submitting authors will be able to elect whether the manuscript is to be considered for presentation only or whether the manuscript will also be considered for a poster session. Accepted papers will not be published in formal proceedings and thus may be submitted to any appropriate journal for publication.

Further Information

Further information on ISAR 2017 is available at <http://isarhq.org/ISAR2017.html>.

If you have any questions about paper submission or the symposium, please email us at ISAR@unsw.edu.au