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Report of the President By Karla Johnstone



Greetings from Sydney, Australia! I am spending seven weeks visiting colleagues in Australia and New Zealand, including workshop visits at the University of New South Wales, the University of Auckland, Monash University, and the University of Adelaide. I hope you can join me in making it a priority to attend international conferences, invite overseas colleagues to spend time at your institutions, and to expand your horizons outside the US in terms of both research, teaching, and learning about auditing standards setting from our Auditing Section colleagues abroad.

I planned my visit from May to July to correspond with two important conferences that I highly recommend:

- The International Symposium on Audit Research (ISAR), <http://www.isarhq.org/>, and,
- The Accounting and Finance Association of Australia and New Zealand (AFAANZ) <http://www.isarhq.org/>.

Many of my colleagues in this region just returned from the European Accounting Association meeting in Valencia, Spain, <http://www.eaa-online.org/r/?iid=FFMIHL>.

Please consider attending an international conference (or two, or three!). I have met many wonderful colleagues who have turned into co-authors and friends based on such meetings. Doing so will help you consider different types of research topics and fresh perspectives relevant to your own and your students' learning.

I recently gave a workshop at the University of Auckland that outlined my students' experiential learning based upon their US busy season internships. It was fascinating to compare and contrast the US approach at my own university to a different, yet complementary setting in New Zealand. I think that it is very beneficial for all of us as educators to consider not only what we consider 'normal' instructional techniques from our own specific social and cultural perspective, but also to take the time to learn from what others view as their own 'normal'.

I hope everyone is enjoying a productive time with your colleagues, and a restful time to unwind with your family and friends during the period June - August. I am looking forward to attending the Annual Meeting in San Diego in August as we celebrate "Imagining our Future". The Annual Meeting Planning Committee, consisting of Brian Bratten, Nate Stephens and David Wood, have been working for MANY months to put together an outstanding program for the Auditing Section. Please thank them if you see them at the meeting! Our Auditing Section luncheon will be on Monday, August 7th. During our luncheon, we will be presenting some acknowledgements to members of the Executive Committee for their excellent service. We will also learn from the remarks of Lynne Doughtie, U.S. Chairman and Chief Executive Officer of KPMG, towards the end of the luncheon. I look forward to seeing you there.

Here are a few updates on various activities:

Center for Audit Quality (CAQ)

The [Access to Audit Personnel Program](#) awarded its [fifth round of projects and is continuing its success in ensuring that researchers have access to auditor participants](#). One new feature of the Program this year is that senior scholars were allowed to be the principal investigator. I'm told that only one senior author-led team applied; please consider applying next year if you haven't in the past. Look for the 2018 Call for Proposals, which will be available in August 2017. This Program is generously supported by the CAQ's eight Governing Board Firms. The CAQ team works closely with the firms to administer the data collection protocols for the researchers. All three of the 2017 awardees are currently in the field, and data collection should be completed by the end of the August.

The CAQ's Research Advisory Board (RAB) funding opportunity is also providing very valuable resources. RAB grant award winners automatically receive an invitation to the CAQ Symposium in the year that they receive the award. Each RAB project is provided a senior partner to serve as an advisor/mentor who can provide context that can result in a more clearly focused research question and hypotheses at the onset of the project. The firms also review instruments before they go in the field. These reviews can be beneficial insofar as they can sharpen the hypothetical task in the case materials. In this most recent round of RAB grants (announced on May 31 through a press release available on the CAQ website listed below), four of the five behavioral projects awarded will require assistance with obtaining participants from the firms. There are a few RAB grants from 2015 and 2016 that will begin data collection this summer. The CAQ team will work closely with the researchers to assure that they meet their sample size requirements across multiple firms.

Even though academics receive assistance at the outset of their project, the CAQ is committed to supporting valuable independent academic research.

<http://thecaq.org/caq-announces-grants-fund-academic-research-auditing>

2017 Audit Educators' Boot Camp

The 2017 Audit Educators' Boot Camp was held in Chicago June 20-22. The Auditing Section is grateful for the support of EY, who hosted the event in their Chicago offices. The workshop was once again fully

subscribed and the academics attending benefited from the participation of partners and managers from six firms who attend the sessions and provide their insights. Thank you to Frank Buckless and Chris Earley for their continued leadership in what I believe to be one of the best opportunities the Auditing Section provides each year.

2018 Auditing Section Midyear Meeting

Believe it or not, planning for the 2018 Midyear Meeting is already well underway. The Meeting is being run by an extraordinarily capable team of Co-Chairs: Tina Carpenter, Margaret Christ, and Jaime Schmidt. They have selected a fantastic venue in the Pacific Northwest, a new one for the Midyear Meeting during which I am very excited to explore Portland, Oregon.

Here is a link to the appropriate web site should you wish to plan well in advance:

<http://aaahq.org/Meetings/Meeting-Info/sessionaltcd/18AUD01>

Look for the upcoming call for submissions and also the call for volunteers. If you submit a paper to the meeting, it is *most courteous* if you would likewise volunteer as a reviewer or discussant.

Transitions

The Annual Meeting is the time when the Section officers and other committee positions transition. Rick Hatfield, Vice-President, Academic and incoming President, has completed the staffing of many Section committees and the committee chairs are busy planning their activities for the new academic year. The Executive Committee wishes to thank all of the volunteers who served on committees this past year, and also those who have volunteered for the coming year. Without all of the individuals who graciously and enthusiastically volunteer to serve our Section, we could not do the many initiatives that the Auditing Section undertakes to satisfy our mission to “further the discipline and profession of auditing and assurance services through education, research and service.”

Please join me in thanking Chris Hogan for serving as VP-Academic, President, and Past-President over the past three years. Chris worked tirelessly and effectively on behalf of the Section and her efforts have resulted in new research and education opportunities for our members. In addition, please join me in thanking Rick Hatfield for being willing to serve as the President of our Section! It’s an immensely fulfilling role, and a great honor to serve, but like dealing with students...you just never know what’s about to happen, and you’re always sort of surprised when it does!

In addition, please join me in thanking Dan Sunderland as the Vice-President of Practice and co-editor at *Current Issues in Auditing*. We also all owe a debt of gratitude to our long-suffering Treasurer, Keith Jones as the AAA worked through its own financial reporting difficulties. Thank you, Urton Anderson, for serving as our Council Representative. We also owe a debt of gratitude to Susan Scholz for her willingness to serve as the Secretary of our Section and to Mark Taylor who is serving as our able Historian. I cannot say enough about the dedication of these individuals and how much they do on behalf of the Section and our profession. I am honored to have served on the Executive Committee with them. I hope you take the time to thank these individuals for their service.

As a final note, I want to share a memory that comes to mind as I am asked to serve in various professional capacities. It was my first Midyear Meeting as an Assistant Professor. At one of the luncheons a 'seasoned' member of our Section received a Distinguished Service Award. What I remember about his speech is the following advice (as I recall it): "When people ask me about how I have achieved so much, my answer is always that I never say 'no' to service and engagement. I have always been eager and willing when a leader of the Auditing Section asks for my assistance, and that has made all the difference." Please keep those words of advice in your mind as we work together to serve the Auditing Section and our profession.

I hope you enjoy the next couple of months and I look forward to seeing you in San Diego at the Annual Meeting.

A handwritten signature in cursive script that reads "Karla M. Johnstone". The signature is written in black ink and is positioned above the typed name.

Karla M. Johnstone, EY Professor of Accounting

The University of Wisconsin – Madison

PCAOB Update

By Martin F. Baumann – PCAOB Chief Auditor, Jennifer Rand – PCAOB Deputy Chief Auditor and Elena Bozhkova – PCAOB Assistant Chief Auditor

Introduction

This Update addresses selected PCAOB developments since the Spring 2017 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Sanctions against former PricewaterhouseCoopers Brazil Partner for Audit Failures,
- Sanctions against Former Deloitte Brazil Chairman and CEO for Violations Related to Failures to Cooperate with a Board Investigation,
- PCAOB/AAA annual meeting,
- PCAOB Standing Advisory Group Meeting,
- Adoption of New Standard to Enhance the Relevance and Usefulness of the Auditor's Report,
- Proposal to Enhance Requirements for Auditing Accounting Estimates, Including Fair Value Measurements,
- Proposal to Strengthen Requirements for an Auditor's Use of the Work of Specialists.

PCAOB Developments

Sanctions against Former PricewaterhouseCoopers Brazil Partner for Audit Failures

On March 20, 2017, the Board announced sanctions against a former partner of PricewaterhouseCoopers Auditores Independentes in Brazil (PwC Brazil) for audit failures and violations of PCAOB rules and standards.

Wander Rodrigues Teles was the lead partner for PwC Brazil's 2010 and 2011 audit work on the Brazilian subsidiaries of Sara Lee Corporation, including Sara Lee Cafés do Brasil Ltda. The PCAOB found that Teles failed to adequately respond to indications that Sara Lee Cafés may have overstated its accounts receivable.

In 2012, Sara Lee restated its 2010 and 2011 financial results, citing accounting irregularities in its Brazil operations, including the overstatement of accounts receivable. According to the settled disciplinary order, Teles knew that a material amount of Sara Lee Cafés' accounts receivable was overdue and disputed by customers. He also was aware that the subsidiary was extending the due dates of overdue receivables, indicating that Sara Lee Cafés may have overstated its accounts receivable. The PCAOB found that Teles failed to adequately respond to these risks with appropriate due care and professional skepticism, and failed to obtain sufficient evidence to support his audit conclusions.

In the settled order, Teles was censured, fined \$10,000, and barred for two years from associating with a registered public accounting firm. Teles did not admit to or deny the findings in the order.

The settled order is available on the PCAOB website at:

<https://pcaobus.org/Enforcement/Decisions/Documents/105-2017-007-Teles.pdf>.

Sanctions against Former Deloitte Brazil Chairman and CEO for Violations Related to Failures to Cooperate with a Board Investigation

On March 29, 2017, the Board announced sanctions against the former Chairman and the former Chief Executive Officer of Brazil-based Deloitte Touche Tohmatsu Auditores Independentes (Deloitte Brazil) for violations related to failures to cooperate with a Board investigation.

The PCAOB found that Michael John Morrell, the former Chairman of Deloitte's governing body in Brazil, contributed to the firm's failure to cooperate with a PCAOB investigation. Also, Juarez Lopes de Araújo, Deloitte Brazil's former CEO and managing partner, refused to cooperate with the investigation. These actions follow a December 2016 PCAOB enforcement order against Deloitte Brazil in which the Board found that the firm and certain individuals attempted to cover up audit violations, including through improper alteration of documents and provision of false testimony to investigators.

In separate orders, the Board:

- Censured Morrell, barred him from associating with a PCAOB-registered firm for five years, and imposed a civil penalty of \$35,000; and,
- Censured Araújo and permanently barred him from associating with a PCAOB-registered firm.

Morrell and Araújo neither admitted to nor denied the findings in their respective orders.

The settled orders are available on the PCAOB website at:

<https://pcaobus.org/Enforcement/Decisions/Pages/default.aspx>.

PCAOB/AAA Annual Meeting

On April 20-21, 2017, the PCAOB held its annual meeting with the Auditing Section of the American Accounting Association. The meeting was attended by more than 120 academics.

On the first day, the agenda included a panel of PCAOB Board members, a session of the Board's Division of Registration and Inspections, and a standard-setting update by the Office of the Chief Auditor. Staff from the Division of Enforcement and Investigations, together with an academic, explored how to develop a teaching case using a PCAOB enforcement action.

On the second day, a panel of academics and the PCAOB's Chief Economist, Standards and Risk Assessment, presented issues that may be relevant to the Board's annual environmental scan of current

and emerging issues. A second panel discussed questions related to use of data and emerging technology tools in the audit.

PCAOB Standing Advisory Group (SAG) Meeting

On May 24-25, 2017, the PCAOB held a meeting of its SAG. The agenda included presentations on the use of data and technology in auditing, and on emerging issues that may affect audits, auditors, or the work of the PCAOB, followed by discussions in breakout sessions. There was also a discussion on recent research conducted by former fellows of the PCAOB Center for Economic Analysis.

Additionally, updates were provided on recent PCAOB developments, the projects on the research and standard-setting agendas, and enforcement activities.

The meeting materials, including the agenda, slides, briefing papers, and meeting webcast and podcast are available on the PCAOB website at:

<https://pcaobus.org/News/Events/Pages/SAG-meeting-May-2017.aspx>.

Adoption of New Standard to Enhance the Relevance and Usefulness of the Auditor's Report:

On June 1, 2017, the Board adopted a new auditing standard to enhance the relevance and usefulness of the auditor's report by providing additional and important information to investors.

The new standard and related amendments require auditors to include in the auditor's report a discussion of the critical audit matters (CAMs) which are matters that have been communicated to the audit committee, are related to accounts or disclosures that are material to the financial statements, and involved especially challenging, subjective, or complex auditor judgment. Under the new standard, the auditor's report will also disclose, among other things, the tenure of an auditor.

The Board approved a phased approach to the effective date for the new requirements. This approach provides investors and other financial statement users with new information as soon as reasonably practicable, while allowing accounting firms, companies, and audit committees time to prepare for implementation of the CAM reporting requirements.

The new standard applies to audits conducted under PCAOB standards. Communication of CAMs is not required for audits of emerging growth companies; brokers and dealers; investment companies other than business development companies; and employee stock purchase, savings, and similar plans.

Effective dates:

- New auditor's report format, tenure, and other information: audits for fiscal years ending on or after December 15, 2017;
- Communication of CAMs for large, accelerated filers: audits for fiscal years ending on or after June 30, 2019;

- Communication of CAMs for all other companies: audits for fiscal years ending on or December 15, 2020.

The new standard and adopting release are available on the PCAOB website at:

<https://pcaobus.org/Rulemaking/Pages/Docket034.aspx>.

Proposal to Enhance Requirements for Auditing Accounting Estimates, Including Fair Value Measurements

On June 1, 2017, the Board issued for public comment a proposal to enhance the requirements that apply when auditing accounting estimates, including fair value measurements. The proposal emphasizes that auditors need to apply professional skepticism and devote greater attention to potential management bias when auditing accounting estimates.

The Board is proposing to replace *Auditing Accounting Estimates* (AS 2501); *Auditing Fair Value Measurements and Disclosures* (AS 2502); and *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (AS 2503). The updated and retitled standard would be *Auditing Accounting Estimates, Including Fair Value Measurements* (AS 2501).

The proposed single standard also would include a special topics appendix that addresses auditing the fair value of financial instruments, including the use of information from pricing sources.

The Board requests public comment on its proposal by August 30, 2017.

The proposal is available on the Board's website at:

<https://pcaobus.org/Rulemaking/Pages/docket-043-auditing-accounting-estimates-fair-value-measurements.aspx>.

Proposal to Strengthen Requirements for an Auditor's Use of the Work of Specialists:

On June 1, 2017, the Board issued for public comment a proposal to strengthen requirements that would apply when auditors use the work of specialists in an audit. The proposal is intended to further investor protection by strengthening the requirements for evaluating the work of a specialist employed or engaged by the company and applying a risk-based approach to supervising and evaluating the work of a specialist employed or engaged by the auditor.

The Board is proposing to amend two existing standards, *Audit Evidence* (AS 1105) and *Supervision of the Audit Engagement* (AS 1201), and replace and retitle one PCAOB standard, *Using the Work of a Specialist* (AS 1210).

The Board requests public comment on its proposal by August 30, 2017.

The proposal is available on the Board's website at:

<https://pcaobus.org/Rulemaking/Pages/docket-044-auditors-use-work-specialists.aspx>.

GAO Update

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

GAO issued the latest High Risk List in February

It includes three new areas: the management of federal programs serving tribes, the U.S. government's environmental liabilities, and the 2020 decennial census.

Sharing and managing information related to terrorism was removed because of significant strides made domestically and internationally in sharing intelligence on terrorism, homeland security, and law enforcement.

High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others.
Available at:

[GAO-17-317, February 15, 2017.](#)

[Podcast: 2017 Update to GAO's High Risk List.](#)

GAO issued its report on the federal government's 2016 consolidated financial statements

GAO did not render an opinion on the federal government's consolidated financial statements for fiscal year 2016 due to deficiencies that have plagued prior financial statements—persistent financial management problems at the Department of Defense (DOD), the government's inability to account for and reconcile certain transactions, an ineffective process for preparing the consolidated financial statements, and significant uncertainties. These shortcomings hamper the government's ability to reliably report much of its financial information.

For 2016, almost all of the 24 Chief Financial Officers Act agencies received unmodified opinions on their respective entities' fiscal year 2016 financial statements. However, DOD and the Department of Housing and Urban Development have continuing impediments to receiving a clean opinion on their financial statements, and the Department of Agriculture received a clean opinion for only one of its financial statements.

[GAO's audit report on the U.S. government's consolidated financial statements](#) is included in the 2016 Financial Report of the United States Government, which is prepared by the Department of the Treasury, in consultation with the Office of Management and Budget, and is available on GAO's website.

Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government.
[GAO-17-283R](#), January 12, 2017.

GAO issued first annual report on the federal government's fiscal health for fiscal year 2016

Beginning an effort to examine the nation's fiscal health at the start of each year, GAO issued its first annual outlook on the nation's fiscal future. The work warns of mounting debt and other challenges, urges prompt action to address those challenges, and is designed to help inform Congress and the incoming administration. GAO encourages the development of a long-term plan that will address levels of federal spending and investments and the options to obtain needed resources.

The report discusses significant changes to the nation's fiscal condition in fiscal year 2016, long-term simulations of the federal debt, and fiscal risks placing additional pressure on the federal budget. Health care expenditures and net interest are now the main drivers of growing federal spending, and without policy changes, the debt-to-GDP ratio is projected to reach historic levels within 15-25 years. GAO also identifies steps that federal agencies can take to improve things, such as reducing improper payments; closing the tax gap; eliminating duplication, overlap, and fragmentation in federal programs; and producing better information on program and fiscal operations to strengthen decision making.

The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future. [GAO-17-237SP](#), January 17, 2017.

Other recently released financial audit reports of the federal government

Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2016 and 2015 Schedules of Federal Debt. [GAO-17-104](#), November 10, 2016.

Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-125R](#), November 10, 2016.

Financial Audit: IRS's Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-140](#), November 10, 2016.

Financial Audit: Bureau of Consumer Financial Protection's Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-138R](#), November 15, 2016.

Financial Audit: Federal Housing Finance Agency's Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-139R](#), November 15, 2016.

Financial Audit: Securities and Exchange Commission's Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-158R](#), November 15, 2016.

Financial Audit: Federal Deposit Insurance Corporation Funds' 2016 and 2015 Financial Statements. [GAO-17-299R](#), February 15, 2017.

Other recent reports of interest

Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended. [GAO-17-15](#), October 14, 2016.

Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates. [GAO-17-22](#), November 15, 2016.

Social Security Offsets: Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief. [GAO-17-45](#), December 19, 2016. [Podcast](#): Relief for Older Americans with Student Loans.

DOD Financial Management: Significant Efforts Still Needed for Remediating Audit Readiness Deficiencies. [GAO-17-85](#), February 9, 2017.

Government Purchase Cards: Little Evidence of Potential Fraud Found in Small Purchases, but Documentation Issues Exist. [GAO-17-276](#), February 14, 2017.

Single Audits: Improvements Needed in Selected Agencies' Oversight of Federal Awards. [GAO-17-159](#), February 16, 2017.

Testimony

DATA Act: Implementation Continues but Challenges Remain, before the Government Operations Subcommittee, House Oversight and Government Reform. [GAO-17-282T](#), December 8, 2016.

High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others. [GAO-17-375T](#), [GAO-17-407T](#), February 15, 2017.

Coming soon

The exposure draft for a revision of *Government Auditing Standards* (the Yellow Book) is scheduled for posting on the GAO website (gao.gov) this spring.

Have you Seen...?

Tamara Lambert, Lehigh University

Stephen Fuller, Suffolk University

James D. Whitworth, University of South Florida

“The Relative Effectiveness of Simultaneous versus Sequential Negotiation Strategies in Auditor-Client Negotiations” By Stephen Perreault, Thomas Kida and M. David Piercey. *Contemporary Accounting Research* 34(2): 1048-1070.

This study investigates whether auditors achieve better outcomes in audit adjustment negotiations when the auditor negotiates multiple adjustments simultaneously or sequentially. The authors also explore whether there is an advantage to presenting the largest adjustment first under either strategy. Better outcomes for the auditor in this context include greater client concessions and client satisfaction with the auditor. The authors predict that clients will exhibit ambiguity aversion to the possibility of subsequent audit adjustments when the adjustments are negotiated sequentially, leading to lower concessions and client satisfaction. The authors conducted an online experiment with 263 experienced business managers completing a case involving the negotiation of two significant audit adjustments. Negotiation strategy was either simultaneous, sequential with a warning of possible further adjustments, or sequential with no such warning. Adjustment order was manipulated with either the larger or smaller adjustment presented first in the negotiation. Results were consistent with the authors' prediction; client concessions and satisfaction were highest when the auditor simultaneously negotiated the adjustments. The authors also found that a strategy of negotiating the largest adjustment first elicited significantly greater total concessions from the client than first negotiating the smaller adjustment issue. This is likely due to the client making concessions on the initial issue in hopes of activating a reciprocity norm in the auditor when negotiating subsequent issues.

“Can I Interrupt You? Understanding and Minimizing the Negative Effects of Brief Interruptions on Audit Judgment Quality.” By Sarah Kim, Diane M. Mayorga and Noel Harding. *International Journal of Auditing* 21(2): 198-211.

This study addresses the effect of brief, but expected, interruptions such as client or colleague interactions, e-mail, or social media alerts on the quality of auditor judgments in complex tasks. The authors predict that these interruptions will disrupt the cognitive resources being devoted to elaboration, the processing of task relevant information, and associations with prior knowledge and long-term memory. The authors predict that if the precise timing of the interruption is known, the auditor may employ coping strategies, such as making mental notes to safeguard information in memory for subsequent retrieval. The authors perform an experiment with 48 Big 4 seniors and staff. The participants perform an analytical procedure task related to the assessment of account misstatement risk. Participants were either not interrupted, interrupted at a time not known to them, or interrupted at a known time. Consistent with predictions, task performance and auditor recall of task information was best when the auditor was not interrupted and worst when the auditor was interrupted without notice of the timing of the interruption. Interestingly, when the timing of the interruption was known, task performance and information recall was significantly better than when the timing is unknown and not statistically different than when there was no interruption. This suggests that auditors

may benefit from actively managing their interruptions and employing measures to minimize their adverse effects.

“The Efficacy of a Decision Support System in Enhancing Risk Assessment Performance.” By Qian Song, Siew H. Chan and Arnold M. Wright. *Decision Sciences* 48(2): 307-335.

This study investigates whether the display format of financial or nonfinancial information in a decision support system impacts the quality of an auditor’s risk assessment judgments. Specifically, the authors explore whether a display of financial or nonfinancial information in an integral format (all information on one screen) or a separable format (information presented separately on multiple screens) best facilitates information processing and leads to more effective risk assessment. The authors also explore whether judgment quality is enhanced when information is displayed in the format (integral or separable) preferred by the auditor. The authors conducted an experiment with 112 primarily Big 4 audit seniors. The task involved an account risk assessment which required review of both financial and nonfinancial information. Information display format was manipulated as either integral or separable and auditor preference for the format was measured. Consistent with predictions, presenting financial (nonfinancial) information in an integral (separable) format led to better risk assessment performance. In addition, the effect of format on performance was strongest when the display format matched the preference of the auditor. Finally, the authors found that using the same display format for both financial and nonfinancial information enhanced performance, particularly when the integral display format most often preferred by auditors was utilized.

“Did the 1998 Merger of Price Waterhouse and Coopers & Lybrand Increase Audit Quality?” By Jong-Hag Choi, Seil Kim and K.K. Raman. *Contemporary Accounting Research* 34(2): 1071-1102.

This study considers the impact of the late 1990’s merger that created PricewaterhouseCoopers on audit quality, the firm, local offices, and local markets. This multi-level evaluation provides several interesting insights and a nuanced overall picture. Most broadly, the merger increased the newly-formed firm’s overall audit quality relative to other Big N firms. At the office-level, firm-level improvements appear to be driven by locations where there was both a Price-Waterhouse office and a Coopers and Lybrand office (as opposed to locations where only one office existed pre-merger). Further analyses provide some support for the increases in audit quality stemming from markets where the combining of offices created a new, larger office which became the local area industry expert. While a merger of auditors with substantial local overlap will concentrate auditor market share, this study suggests an improvement in audit quality by the merged auditor, counter to concerns about auditor concentration harming audit quality.

“The Impact of Litigation Risk on Auditor Pricing Behavior: Evidence From Reverse Mergers.” By Lawrence Abbott, Katherine Gunny and Troy Pollard. *Contemporary Accounting Research* 34(2): 1103-1127.

The authors take advantage of the unique setting of reverse mergers to examine the impact of litigation risk on audit pricing. The reverse merger involves a private firm merging with a public firm (typically a shell company), with the private firm management taking over the newly-established entity. So while most of the attributes of both partners in the merger remain more or less the same, the risk of litigation to the (formerly) privately held partner increases considerably with their equity now publicly available. The study finds a roughly 27 percent litigation risk audit fee premium, with more dispersed equity post-

merger further increasing the premium. Additionally, the Big 4 audit fee premium exists pre-merger but increases post-merger. The authors also find that institutional ownership is associated with increased audit fees in both private- and public-equity settings.

Regulatory oversight and auditor market share.” By Daniel Aobdia and Nemit Shroff. *Journal of Accounting and Economics* 63(2-3): 262-287.

This study considers whether PCAOB inspection impacts the perceived value of audits by examining the impact of PCAOB inspection on non-U.S. auditors. The authors use a within-country design that exploits variation in the PCAOB’s international inspection program. They find that non-U.S. auditors who are inspected by the PCAOB take a four to six percent market share from competing auditors following the public disclosure of the PCAOB inspection report. This benefit is larger in industries where non-U.S. auditors have more SEC registered clients. The presence of a local country inspection program does not impact the value of the PCAOB inspection. However, if the PCAOB inspection report reveals many engagement-level deficiencies, the market share gain is substantially smaller. The authors also find some evidence that the benefit of PCAOB inspection to non-U.S. auditors is larger in countries that are regarded as more corrupt and with weaker rule of law.

“Do PCAOB Inspections Improve the Quality of Internal Control Audits?” By Mark Defond and Clive Lennox. *Journal of Accounting Research* 2017 55(3): 591-627.

This study considers the impact of PCAOB inspections on the quality of internal control audits. Utilizing a research design that approximates a difference-in-differences approach, the authors find that when PCAOB inspectors report higher internal control deficiency rates, auditors increase the issuance of adverse internal control opinions. Auditors also issue more adverse internal control opinions to clients with concurrent financial reporting misstatements, as the existence of the misstatement clearly suggests the internal control system did not detect the misstatement. The higher internal control deficiency rates also leads to higher audit fees, consistent with increased remediation efforts that come at a higher cost to the client.

Have You Seen These Educational Resources?

Ed Douthett, George Mason University, Chair

Marsha Keune, University of Dayton, Vice Chair

Have You Seen These Resources for Identifying Cases?

[Accounting Case Search Site](#). By Michael Meyer and Teresa Meyer.

This website (click on title to access website) provides an excellent way to identify and search for cases by course (e.g., undergraduate auditing, graduate auditing, capstone, etc.) and course topic (e.g., Control Risk, Evidence, Engagement Risk, etc.) Publications from a variety of outlets including *Issues in Accounting Education*, the *IMA Educational Case Journal*, the *Journal of Accounting Education*, and *Accounting Perspectives* are covered.

“Accounting Education Literature Review (2016).” By Barabara Apostolou, Jack W. Dorminey, John M. Hassell and James E. Rebele. *Journal of Accounting Education* 39: 1-31.

This study reviews studies and cases published during 2016 in (1) *Journal of Accounting Education*, (2) *Accounting Education*, (3) *Advances in Accounting Education*, (4) *Global Perspectives on Accounting Education*, (5) *Issues in Accounting Education*, and (6) *The Accounting Educators’ Journal*.

Have You Seen These Instructional Cases and Resources?

“Growing Up: How Audit Internships Affect Students’ Commitment and Long-Term Intentions to Work in Public Accounting.” By Matthew Hart, Joleen Kremin and William R. Pasewark. *Issues in Accounting Education* 32 (2): 47-63.

This study provides insight into how internships impact the perceived organizational and professional commitment of interns.

“What You DO Know CAN Hurt You: An Instructional Case Requiring Application of Professional Standards to an Ethical Dilemma Facing an Auditor and Tax Preparer.” By David J. Hess, Mark H. Haney and Carol S. MacPhail. *Current Issues in Auditing* (In-Press).

This study provides students with exposure to an ethical dilemma related to auditors’ responsibilities regarding information that is acquired through the provision of services to another client, a related party. This dilemma gives students the opportunity to apply and consider professional auditing standards on professional conduct and fraud.

“How to Effectively Integrate Professional Oriented Faculty to Achieve the Department’s Mission.” By D. Scott Showalter and James Bodtke. *Issues in Accounting Education* 32 (2): 39-46.

This commentary provides insight into ways to integrate professionally oriented faculty, as well as to attract and retain professionally oriented faculty.

Do You Know How to Access the COSOS Framework?

[COSO Internal Control-Integrated Framework](#)

COSO and AAA provide faculty and students with access (click on title to access website) to the *Internal Control-Integrated Framework (2013)* and *Compendium Bundle* for \$250.

AICPA to Provide Grants to Fund Assurance Related Academic Research

The Assurance Research Advisory Group is currently calling for research proposals from members of the accounting education academic community. The group, comprised of representatives from academia, selected in collaboration with AAA, and public practice, will review all submissions. All accounting educators are encouraged to submit research proposals addressing private company assurance topics that are of interest to audit practitioners. These topics include audit quality, limited assurance, risk assessment and response, materiality, evolving skillsets, and sufficiency and appropriateness of audit evidence.

Approved research proposals are eligible for funding of up to \$15,000 and, where applicable, after obtaining consent, access to peer reviewers, firm personnel and/or anonymized firm data gathered by the AICPA Peer Review Program. The research proposals funded by the AICPA will provide the profession with valuable insight into the factors that affect the quality of assurance services.

For more information, and to [submit a proposal](#), visit the Assurance Research Advisory Group [website](#).