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Report of the President

By Rick Hatfield



I hope everyone is having a great Summer. As my mother used to say, “it’s hotter than a \$2 pistol on a Saturday night” here in Tuscaloosa (but I’ll be playing golf in February). This is my last presidential letter, it has been an honor to serve in this role. You will soon be in the very capable hands of Kathryn (someone so accomplished I need only mention her first name, whereas I get called Rich Houston about half the time in my own department).

I am looking forward to attending the Annual Meeting in Washington D.C. in August (haven’t been there in weeks). The theme for our meeting is “Pathways to a Sustainable Future”. The Annual Meeting Planning Committee, consisting of Sarah Rice, Adi Masli, Monika Causholli and Chad Stefaniak (Directors) and Tamara Lambert, Phil Lamoreaux, Justin Leiby, Joe Schroeder and Karen Ton (Vice Directors), have been working for several 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 6th, and Wayne Berson, the Chief Executive Officer of BDO will be our guest speaker. I look forward to seeing you there.

Here are a few updates of activities that our friends and colleagues have been working on.

Center for Audit Quality (CAQ)

CAQ [Access to Audit Personnel Request for Proposals](#) for data collection in Summer 2019 is now available on the CAQ’s website. Proposals are due on Monday, February 4, 2019. This program is designed to assist scholars in obtaining participation by audit associates, seniors, managers, and partners for their experimental research. Proposals must include a write up of the research question and study hypotheses, and include a copy of a well-developed study protocol.

The [2018 Access grant recipients](#) were announced in April. Additionally, in May, the CAQ’s Research Advisory Board awarded [four grants to fund independent academic research](#) on projects of interest to the auditing profession. The list of grantees can be found on the CAQ website. The RFP for the 2019 grant year will be released by December 2018; proposals will be due on Monday, March 18, 2019.

Audit Educators' Boot Camp

The 2018 Audit Educators' Boot Camp was held in Chicago in June at the KPMG offices. The workshop was once again fully subscribed and the academics attending benefited from the participation of partners and managers from several firms who attend the sessions and provide their insights. Thank you to Frank Buckless, Chris Earley and Scott Showalter for their continued leadership in what I believe to be one of the best opportunities the Auditing Section provides each year.

2019 Auditing Section Midyear Meeting

Even though it is only July, planning for the 2019 Midyear Meeting has already begun. Kenneth Bills, Chan Li, and Drew Reffet, Program Co-Chairs, have already begun planning to make the meeting to be held in Nashville, Tennessee a great success. Look for the upcoming call for submissions and also the call for volunteers. Please volunteer as a reviewer and take the time to provide thoughtful and valuable feedback to your colleagues on their research.

The Annual Meeting is the time when the Section officers and other committee positions transition. Kathryn Kadous, 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 would like 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." Thanks for all your work!

I would like to personally thank Karla Johnstone for serving as VP-Academic, President, and Past-President over the past three years. Karla 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, I would like to thank Dan Sunderland, Deloitte for serving as Vice-President-Practice and Sue Scholz for serving as Secretary for the past two years. 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 and better off for their friendship. I hope you take the time to thank these individuals for their service. The Section will be in good hands this coming year as Kathryn transitions into the role of President. Chad Stefaniak will continue as Treasurer and Mark Taylor will continue as Historian, while new members of the Executive Committee include Scott Vandervelde as Vice-President, Academic, Marsha Keune as Secretary, Becky Sproul (KPMG) as Vice-President- Practice and Randy Elder as Council Representative.

Thanks again to the many individuals who contribute to the mission of our Section. Enjoy the Summer and I look forward to seeing you in D.C.!

Rick Hatfield

PCAOB Update

Barbara Vanich – PCAOB Acting 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 2018 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- PCAOB Board Member Duane M. DesParte Sworn in,
- PCAOB/AAA Annual Meeting,
- PCAOB Seeks Input into 2018-2022 Strategic Planning,
- Former Senior Partners of Deloitte Turkey Sanctioned,
- PCAOB Sanctions and Fines Deloitte,
- PCAOB Staff Changes,
- PCAOB Standing Advisory Group Meeting.

PCAOB Board Member Duane M. DesParte Sworn in

On April 9, 2018, the PCAOB announced that Duane M. DesParte was sworn in as a Board member, making him the fifth and final new member to join the Board this year.

Board Member DesParte's biography is available on the PCAOB website at:

<https://pcaobus.org/About/Board/Pages/Duane-M--DesParte.aspx>.

PCAOB/AAA Annual Meeting:

On April 12-13, 2018, the PCAOB held its annual meeting with the Auditing Section of the American Accounting Association. The meeting was attended by approximately 125 academics.

On the first day, there was a session with the new PCAOB Board members. The agenda also included a session of the PCAOB's Division of Registration and Inspections that discussed recent inspection findings with a spotlight on risk assessment, and a standard-setting update by the Office of the Chief Auditor. The Division of Enforcement and Investigations provided an overview of enforcement activities and discussed a recent PCAOB enforcement case.

On the second day, a panel of academics, PCAOB staff, and a FASB Board member explored ways to promote applying professional skepticism in the audit. A second panel discussed auditor and student skill sets needed to address the growing use of data analytics tools.

PCAOB Seeks Input into 2018-2022 Strategic Planning

On April 17, 2018, the PCAOB announced that it is seeking input into its 2018-2022 strategic planning. Following the recent appointment of five new Board members, the PCAOB is taking a fresh look at the organization and its future direction in fulfilling its mission.

The PCAOB strategic plan is intended to align Board programs, operations, and activities with its overall mission, goals, and objectives. This year, the Board included in its planning process a survey to obtain the views of external parties who have an interest in the PCAOB, such as investors, auditors, preparers, audit committee members, and academics.

Former Senior Partners of Deloitte Turkey Sanctioned

On May 10, 2018, the PCAOB announced that it has barred two former senior partners of Deloitte Turkey from associating with a PCAOB-registered accounting firm.

The PCAOB found that the partners, Hüseyin Gürer and Gökhan Alpman, who both served as chief executive officers of Deloitte Turkey, were aware of an effort at the firm to improperly alter documents in advance of a 2014 PCAOB inspection and they did not try to stop it. The document alterations ultimately led to charges against Deloitte Turkey and two other of its former personnel. The Board also barred a third senior partner, Ömer Tanriöver, the former risk and reputation leader, for failing to cooperate with a PCAOB investigation of the matter.

In addition to the bar, Gürer was fined \$25,000. The PCAOB orders also censured Gürer, Alpman, and Tanriöver, who neither admitted nor denied the findings in their respective orders.

The disciplinary orders are available on the PCAOB website at:
<https://pcaobus.org/Enforcement/Decisions/Pages/default.aspx>.

PCAOB Sanctions and Fines Deloitte

On May 24, 2018, the PCAOB announced a censure and \$500,000 civil money penalty against Deloitte & Touche LLP to settle charges that it missed material accounting errors in three consecutive audits of Jack Henry & Associates, Inc.

The PCAOB charged Deloitte with violating Board rules and auditing standards in its fiscal year 2012, 2013, and 2014 audits of Jack Henry. The PCAOB found that Deloitte was primarily responsible for the violations because none of the engagement personnel it assigned to the audits had sufficient software industry experience and knowledge (including of the relevant generally accepted accounting principles) to properly evaluate and audit the accounting for software license revenue.

Deloitte consented to the Board's order without admitting or denying the findings. In addition to the censure and fine, Deloitte certified that it had enhanced its use of industry expertise as part of its quality

control processes in two ways: first, for matching engagement partners and quality reviewers to their assigned audits; second, for assigning reviewers to its internal inspections of audits.

The disciplinary order is available on the PCAOB website at:

<https://pcaobus.org/Enforcement/Decisions/Documents/105-2018-008-DT-JKHY.pdf>.

PCAOB Staff Changes

During May 2018, the PCAOB announced that the following staff members are leaving the PCAOB:

- J. Gordon Seymour, General Counsel,
- Helen A. Munter, Director of the Division of Registration and Inspections,
- Martin F. Baumann, Chief Auditor and Director of Professional Standards,
- Nirav Kapadia, Information Technology Director,
- Claudius Modesti, Director of the Division of Enforcement and Investigations.

More information about their tenures at the PCAOB can be found at:

<https://pcaobus.org/News/Releases/Pages/default.aspx>.

PCAOB Standing Advisory Group (SAG) Meeting

On June 5-6, 2018, the PCAOB held a meeting of its SAG. On the first day, the agenda included a panel discussion with the new PCAOB Board members and an update on standard-setting activities. There were also sessions on data and technology, cybersecurity, and other current or emerging issues that may affect audits or auditors, followed by breakout discussions on these topics.

On the second day, there was a panel discussion of corporate culture and its implications for the audit, followed by a panel discussion on implementation of the new auditor's report, and a report back of the breakout discussions.

The meeting materials, including the agenda, briefing papers, and meeting webcast are available on the PCAOB website at: <https://pcaobus.org/News/Events/Pages/SAG-meeting-June-2018.aspx>.

Auditing Standards Board Update

Audrey Gramling

Oklahoma State University

In May 2018, I attended my first ASB meeting as a Board member. What a great experience! I look forward to my term on the Board, and am honored to serve as the academic member of the Board. Special thanks to Steve Glover who represented the academic community on the ASB for the prior three years. Based on my discussions with Board members and staff, it appears that Steve made many significant contributions to the ASB during his term. Thanks Steve!

You can find a list of current ASB members and their biographies [here](#). And, you can find meeting highlights and dates of upcoming meetings [here](#). If you are interested in being an ASB meeting observer at a future meeting, you will find the registration form [here](#). Meetings and meeting materials and highlights are open to the public except for sessions dealing with administrative or confidential matters.

May 2018 Meeting Highlights

Attestation Standards

The most significant activity at the May meeting was the ASB's vote to issue for balloting the proposed Statement on Standards for Attestation Engagements, *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification (the exposure draft). The proposed SSAE would supersede AT-C sections 105, 205, 210, and 215. Subsequent to the May meeting, the board issued the exposure draft, which is available [here](#). (If you plan to read it, be sure to block out sufficient time – it is just over 400 pages long!) The comment deadline is October 11, 2018. An interesting, and somewhat unusual, event occurred when the ASB voted for issuance of the exposure draft. Fifteen members voted to issue the proposed SSAE as an exposure draft and five members dissented to issuance of the exposure draft. The dissents are included in the Explanatory Memorandum of the Exposure Draft. (As an educator, I think that these dissents may provide the foundation for an interesting discussion in a graduate auditing course.)

As background, the ASB clarified its attestation standards in 2016. However, at that time the ASB recognized that its attestation standards were not converged with the ISAEs (International Standards on Assurance Engagements). Accordingly, the ASB decided to address this issue in a follow-on project. Furthermore, the ASB's Audit Issues Task Force subsequently recommended that the ASB adopt a project to evaluate opportunities to provide practitioners with additional flexibility when performing an agreed-upon procedures engagement. These matters are the subject of the proposed SSAE.

Following is a summary of the more significant proposed changes included in the exposure draft that would affect all attestation engagements:

- The practitioner would no longer be required to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter. A written assertion from the responsible party would be only be required if the practitioner were reporting on the assertion.
- The practitioner would be required to include a statement in the practitioner's report indicating that the practitioner is independent and has fulfilled the practitioner's other ethical responsibilities in accordance with relevant ethical requirements related to the engagement.

Following is a summary of the more significant proposed changes included in the exposure draft that would affect examination and review engagements:

- The practitioner would be required to request a written representation stating whether the subject matter has been measured or evaluated against the criteria.
- In situations when management provides an assertion, the practitioner would be required to determine whether management has a reasonable basis for its assertion.
- The practitioner would be able to add information to the practitioners' report that goes beyond the required minimum components.

Following is a summary of the more significant proposed changes included in the exposure draft that would affect only examination engagements:

- The practitioner would not be required to modify the report because of the practitioner's inability to obtain one or more requested written representations.

Following is a summary of the more significant proposed changes included in the exposure draft that would affect only review engagements:

- The term "review engagement" would be changed to "limited assurance engagement."
- The SSAE would no longer state that limited assurance procedures (formerly, review procedures) generally are limited to inquiry and analytical procedures; rather it would clarify the types of procedures a practitioner may perform in a limited assurance engagement.
- The practitioner's limited assurance report would include a description of the work performed as a basis for the practitioner's conclusions.
- The practitioner would be permitted to express an adverse conclusion when the practitioner, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the subject matter. This change revises the current requirement for practitioners to withdraw from such engagements.

Following is a summary of the more significant proposed changes included in the exposure draft that would affect only agreed-upon procedures engagements:

- The practitioner, the engaging party, or any other party would be allowed to develop the procedures.
- None of the specified parties will be required to take responsibility for the sufficiency of the procedures; rather, the engaging party is required to acknowledge the appropriateness of the procedures.

- The practitioner, in certain situations, would no longer be required to restrict the use of all agreed-upon procedures reports to the specified parties that assume responsibility for the sufficiency of the procedures

Reports on ERISA Audits

At the May 2018 meeting, the Board continued its discussion of the comment letters received in response to the exposure draft *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. The Board expects to vote to ballot a proposed standard for issuance as a final standard at the July 2018 Board meeting. You can find Letters of Comment on Exposure Draft of Proposed Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA [here](#).

July 2018 Meeting Agenda Items

In addition to discussing reporting on ERISA Plan Financial Statements, the Board's agenda for the July 2018 meeting includes discussion of the following topics:

- Feedback from the comment letters received on the exposure draft *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*. You can find these comment letters [here](#).
- Feedback from the comment letters received on the public exposure of the proposed Statement on Auditing Standards, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. You can find these comment letters [here](#).
- Feedback from comment letters received in response to the exposure draft of Proposed Statement on Auditing Standards, *Omnibus Statement on Auditing Standards —2018*. You can find these comment letters [here](#).

American Accounting Association Council Update

Urton Anderson
University of Kentucky

The AAA Council met March 17th at the Atlanta Airport Gateway Marriott in Georgia. A summary of the meeting follows.

The November 2017 Council minutes were approved and are posted on the [Board and Council Activities webpage](#)

Council Chair Markus Ahrens announced that there would be examples throughout the day on Best Practices that had been used during a few of the recent Midyear Meetings. Markus and Susan Crosson, Director of the Center for Advancing Accounting Education, presented an overview on Poll Everywhere which is a good resource to collect data during meetings and in the classroom. Poll Everywhere was used throughout the year with the AAA Leadership presentations made at the Midyear Meetings.

AAA Executive Director Tracey Sutherland gave an overview on membership trends, which have remained stable over the past 10 years. Annual Meeting attendance has grown over the last few years and we have been able to offer many more sessions and options for members. The number of Segment meetings and attendance has also increased over the years. Our journal collection and the number of pages within the issues continue to increase. Kudos and ORCID available on the AAA website and are great resources for our authors to gain more overall exposure to our journal collection. [The Accounting Hall of Fame](#) new inductions will take place at the 2018 Annual Meeting. The 2018-2019 Board of Directors election has just closed, and the results must be audited and verified.

Susan Crosson gave an update on activities of the Center for Advancing Accounting Education. There will be an Intensive Data and Analytics Workshop on June 4-7 in Orlando, FL, designed for those who want to teach data analytics. There will be 44 hours of intensive learning and CPE credits available. In addition, there will be four tracks at the Workshop; Audit, Tax, Financial, and Managerial Accounting. The Workshop is formatted with TED Talk-style talks in the mornings and concurrent sessions in the afternoons. Ann Dzuranin and Guido Geerts will be presenters at the Workshop. During the evenings, there will be 3-hour workshop sessions. Workshop participants will have the opportunity to choose sessions by topic for curriculum development and how to integrate data analytics into courses. There will be time to exchange information with cohort groups at the end of the meeting.

In the Fall, there will be the Blockchain Technology conference held in San Francisco, CA on September 13th and 14th. The cost will be similar to past Big Data conferences.

Susan also mentioned that the applications for the 2018 Cook Prize are being reviewed and reminded Council that past Cook Prize winners will be presenting Teaching Perspectives at upcoming Region Meetings.

ATA Council Representative Nancy Nichols introduced the Jeopardy game that was presented at the ATA Midyear Meeting. It is a way to get the audience engaged in presentations and to participate, as opposed to, just listening to a traditional speaker format. Three teams composed of six Council members participated in answering questions about the AAA, Segment history, and facts. Markus Ahrens and Board member Pat Poli (Director-Focusing on Segments) hosted the game. Markus reminded everyone that the game is available as a free app that can be used in the classroom. Markus stated that he uses it in the classroom for test review. Other Council members mentioned that they have used it and have had students use it for presentations.

Board Member Leslie Hodder (Vice President - Finance) presented an overview of dues changes and the budget process. A motion was made and carried to approve the 2018-2019 membership dues. Markus Ahrens reviewed the roles and responsibilities of the Council Chair position for the 2018-2019 Council Chair-Elect election. There was a brief discussion from the floor on the three candidates. Following the March Council Meeting, the vote took place and Cindy Durtschi was elected and accepted the position as Council Chair-Elect for 2018-2019.

Markus Ahrens and Tracey Sutherland discussed the importance of the AAA Nominations Committee. Markus mentioned the names of the nineteen nominees for the 2018-2019 AAA Nominations Committee. Following the March Council Meeting, the vote took place. The following five members were elected and have accepted the positions on the Nominations Committee: Ann Dzurani, Martha Eining, Sarah McVay, D. Scott Showalter, and David E. Stout.

Pat Poli reviewed that there had been a Section Leader webinar on November 29th where the Section Leader website and webinar policy were discussed. There will be another webinar on March 22nd where the topic will include Bylaws, Annual Meeting logistics, and marketing your Section at Region Meetings. The Bylaws project continues to progress and comments from Sections on the revisions are due at the end of March. The proposed revisions will be posted to Section websites and the members will be asked to vote on the revisions.

Board member Elaine Mauldin (Director-Focusing on Intellectual Property) gave an update of the [Kudos Pilot](#) that is currently underway. There are 8 AAA journals currently participating: *Accounting Horizons*, *Auditing: A Journal of Practice & Theory*, *Behavioral Research in Accounting*, *Journal of Information Systems*, *Journal of International Accounting Research*, *Journal of Governmental & Nonprofit Accounting*, *Journal of Management Accounting Research*, and *The Journal of the American Taxation Association*. Kudos uses plain language summaries to help attain more exposure for articles. Julie Smith David mentioned that there is a publisher dashboard that shows some analytics for the journals. There are also altimetric scores available for when the articles are posted on social media sites.

AAA President Anne Christensen gave an overview of the upcoming Annual Meeting and the speakers that will be featured at the plenaries and luncheons. Monday will feature Bruce Mau as the plenary speaker, as well as, the presentation of the Cook Prize. Tuesday's plenary will feature the 2018 Presidential Scholars Christine Botosan and Lillian Mills. Also, the Accounting Hall of Fame induction will take place on Tuesday and Don Reed will be the lunch speaker. Wednesday's plenary will feature

Baruch Lev and Richard Howitt, while Marc Rubin will be the featured luncheon speaker. Anne mentioned that the At-Large panels that Council help plan at the November Council Meeting were in the process of being organized.

Randy Elder from the Auditing Section explained a “Best Practices” activity from their Midyear Meeting where they held a raffle for books that their featured speaker had written. Therefore, we had four books written by our upcoming Annual Meeting speakers that were featured as raffle prizes to Council Members.

Anne Christensen reviewed the Sustainability Mindset Project and how it can be used to better evaluate projects to move forward as an association. In November, Council participated in an activity to score potential projects based upon its level of impact. This process can aid in the decision-making process to determine which projects should move forward. Julie Smith David and Susan Crosson presented examples of two potential projects and a draft Project Proposal Form. Council was asked to provide input on the process, the Project Proposal Form, and the scoring methods. A discussion followed on what may be needed to improve the form (i.e. items such as specific questions asked, what detailed descriptions should include, timelines, cost analyses) and the overall scoring methodology. The Sustainability Mindset Task Force will review this feedback and continue to work on improving the Proposal Form and scoring.

Following the March Board Meeting, the election for the 2018-2021 International Council Member-at-Large was held. Sanjay Kallapur of the Indian School of Business was elected and accepted the position. Sanjay will begin his term at the end of the 2018 Annual Meeting. Sanjay will replace outgoing Council Member-at-Large Lakshmanan (Shiva) Shivakumar from the London Business School.

Have you Seen...?

Tamara Lambert, Lehigh University

Stephen Fuller, Suffolk University

James D. Whitworth, University of South Florida

“The Effects of an Auditors’ Communication Mode and Professional Tone on Client Responses to Audit Inquiries.” 2018. By Aaron Saewitz and Thomas Kida. *Accounting, Organizations and Society* 65: 33-43.

This study investigates whether the communication mode used in an auditor inquiry and the auditor’s tone in the inquiry influence the degree of self-serving bias in the client’s response. The authors theorize that audio or visual communication with the client will cause the auditor to be perceived as more socially present by the client than e-mail communication, which they expect will lead to more cooperation and less biased responses by the client to the auditor’s inquiry. In addition, the authors predict that a more professional tone by the auditor in the inquiry will also lead to a less biased response from the client. The authors conduct an experiment using MBA students with manager experience. The managers review an inventory obsolescence case that includes an equal number of facts for and against an adjustment being needed. The authors vary communication mode (e-mail, audio or visual) and professional tone (more/less) between participants. The participants then write a response to the auditor with free choice regarding whether to include or exclude each fact. As predicted, clients receiving audio or visual inquiries were less biased than clients receiving e-mail inquiries. More professional auditor inquiries also elicited less biased responses from clients. The authors also provide evidence suggesting that clients responding with less bias are more likely to agree with an unfavorable audit adjustment.

“The Effects of Multitasking on Auditors’ Judgment Quality.” By Curtis Mullis and Richard Hatfield. 2018. *Contemporary Accounting Research* 35: 314-333.

This study explores whether multitasking by auditors reduces the quality of their complex judgments and whether an intervention can mitigate the effect. The authors use ego depletion theory to predict that multitasking reduces auditor’s self-control resources, leading to lower quality complex judgments. The authors also argue that ego-boosting psychological interventions, that focus on replenishing self-control, may mitigate the reduction in judgment quality. The authors conduct a 2X2 between-participants experiment with Big 4 audit seniors that varies the presence (versus absence) of multitasking, and whether or not the participants receive an ego-boosting intervention. All participants perform two simple preliminary tasks and one complex task. The multitasking participants switch back and forth between portions of the first two tasks before completing the complex task, whereas the non-multitasking participants perform the simple tasks sequentially. In addition, half of the participants in each group receive a message designed to boost their ego through (among other things) a statement of the task’s importance and the participant’s well-suited expertise for the task. All participants then proceed to the complex task - identification of seeded errors. As predicted, multitasking participants performed less well on the complex task, particularly with the identification of more difficult conceptual errors. In addition, the ego-boosting intervention substantially mitigated the reduction in task performance by the multitasking participants.

“The Unintended Consequences of Uncertainty Disclosures Made by Auditors and Managers on Nonprofessional Investor Judgments.” By Andrea Kelton and Norma Montague. 2018. *Accounting, Organizations and Society* 65: 44-55.

This study investigates how expansion of the auditor’s report and management disclosure concerning uncertainty in accounting estimates affects nonprofessional investor perceptions and investment decisions. The authors theorize that there may be unintended consequences to standard setter efforts requiring (1) expansion of the audit report to include emphasis of the uncertainty in an accounting estimate, and (2) management to disclose the range of the estimate. In particular, the authors argue that emphasizing uncertain estimates in the audit report may actually bolster the perceived credibility of management and its disclosures and lead to a higher investment likelihood. Further, the authors predict that this credibility-enhancing effect will hold even when managers disclose the range of the related estimate, because they expect investors to rely on the credibility heuristic when confronted by greater uncertainty. The authors conducted a 2X2 experiment where they manipulated the presence versus absence of (i) expanded auditor reporting regarding the uncertain estimate, and (ii) management disclosure of the estimate’s range. As predicted, when the auditor provided discussion of the uncertain estimate in the audit opinion, investors perceived management as more credible and indicated a higher likelihood to invest. These effects held even when management’s disclosure included a range. In a follow-up experiment, the authors found that when the range was much wider (i.e., the uncertainty was much greater), the credibility-enhancing effect of the auditor’s expanded reporting was mitigated.

“Earnings Management, Audit adjustments, and the Financing of Corporate Acquisitions: Evidence from China.” 2018. By Clive Lennox, Zi-Tian Wang, and Xi Wu. *Journal of Accounting and Economics* 65: 21-40.

This paper uses the acquisition setting to consider whether earnings-decreasing audit adjustments are more likely to be required surrounding a stock-based acquisition, relative to a cash acquisition. A stock-based acquisition provides a stronger incentive to the acquirer to overstate earnings prior to purchasing another company with their own stock, and should presumably have a larger impact on the audit risk model as well. The authors find larger earnings-decreasing audit adjustments prior to a stock-based acquisition than acquisitions for cash. Interestingly, subsequent regulatory sanctions suggest the earnings-decreasing adjustments were warranted and that they did not fully correct the overstatement. The authors interpret this as being inconsistent with their main findings being due to an overly conservative auditor.

“Awareness of SEC Enforcement and Auditor Reporting Decisions.” By Mark Defond, Jere Francis, and Nicholas Hallman. 2018. *Contemporary Accounting Research* 35: 277-313.

The authors consider whether two geographic-proximity derived measures of SEC enforcement awareness impacts auditor reporting decisions among non-Big 4 auditors. The authors construct a measure of SEC enforcement awareness based on the audit office’s proximity to SEC regional offices and specific SEC enforcement actions against auditors. They find an association between awareness and the likelihood of issuing a going concern by non-Big 4 auditors. They also find such an association between awareness and the likelihood of a false positive audit report (i.e. a going concern issued to a client that does not go bankrupt), consistent with the main result being due to excessive conservatism on the part of the auditor. Finally, awareness is also associated with larger audit fees and a higher likelihood of auditor changes. Overall, the paper suggests that SEC enforcement awareness has the unintended result of causing non-Big 4 auditors to issue less informative and more expensive audit reports.

“Accounting Comparability, Audit Effort, and Audit Outcomes.” 2018. By Joseph Zhang. *Contemporary Accounting Research* 35: 245-276.

Using a performance- and market-based measure of accounting comparability, this paper considers whether comparability within industry improves audit efficiency and audit report accuracy, as comparability may make assessing inherent risk less difficult for the auditor. In the main results, the author finds that accounting comparability is associated with lower audit fees, shorter audit delay, and a decreased likelihood of audit opinion error. Additionally, he finds that comparability has a stronger benefit for short-tenured auditors (i.e. those with less client-specific knowledge or experience).

Have You Seen These Educational Resources?

Marsha Keune, University of Dayton, Chair

Contributors:

Patricia Johnson, State University of New York at Fredonia, Vice Chair

Penelope Bagley, Appalachian State University

“Using Visualization Software in the Audit of Revenue Transactions to Identify Anomalies.” By Lauren Cunningham and Sarah Stein. 2018. Forthcoming in *Issues in Accounting Education*.

This case utilizes Tableau Visualization Software to identify anomalies in revenue transactions based off of the relationship between revenue transactions and non-financial data, in this case weather patterns. Students are required to create a memo for the audit workpapers describing the analytics they performed and identifying anomalous transactions for further testing.

“An Accounting Ethics Case from Multiple Perspectives.” By Kevin Dow, Marcia Watson, Vincent Shea, and Sara Kern. 2018. *Journal of Accounting Education* (43): 63-75.

In this case, students are given a series of related scenarios and asked to investigate the scenarios from multiple ethical perspectives utilizing multiple professional code of conducts. The purpose of the case is to increase students’ awareness and understanding of ethical frameworks and codes of conduct and to help students apply these frameworks to decision making.

“Disclosure and Audit Implications of Nonfinancial Measures: A Teaching Case.” By Dean Gabriel and Loughlin Matthew. 2018. Forthcoming in *Current Issues in Auditing*

In this case, students are introduced to Nonfinancial Measures (NFMs) and the role that they play in valuation assessments, fraud risk assessments and substantive analytical procedures. Students will utilize Microsoft Excel in performing analytical procedures and analyze actual NFMs disclosed in SEC filings.