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Report of the President

By Keith Jones



I hope everyone is having a great fall semester. Like your universities, the University of Kansas is dealing with the effects of Covid-19 as best we can. It has been a challenging time for everyone including the Auditing Section. Fortunately, we have a great Section with outstanding people serving in many capacities. It is an honor to serve as the President of the Auditing Section. I want to thank everyone for supporting the Section during this unusual time.

Executive Committee

As always, the Section has a wonderful group of people serving on the Executive Committee. I would like to start my letter by thanking Scott Vandervelde for his thoughtful leadership as President of the Section over the past year. He was invaluable in helping me “learn the ropes” and get up to speed on the issues facing the Section, and I will continue to rely on him this year as he serves as Past President. The Section is fortunate to have Christine Early as the Vice President-Academic. She will do a great job as President next year. Tina Carpenter has kept us out of trouble as our Treasurer. She is working hard to make sure the Section stays in the black. Mark Taylor has been serving as the Historian and is a valuable resource for the Executive Committee given his years of service to the Section. Randy Elder continues to serve as our Council Representative. We welcome Helen Brown Liburd as our new Secretary and Chris Dinkel from PwC as our new Vice President-Practice. Engaging with the profession is a hallmark of the Section, and the firms routinely provide access to some of their best folks to serve as Vice President-Practice. This this year is no exception.

2020 Annual Meeting

The Annual Meeting in 2020 turned into a virtual meeting. The AAA did a nice pivot from a live meeting in Atlanta to a virtual meeting on the Spark platform. I want to thank the planning committee led by Co Directors Miguel Minutti Meza, Stephen Perreault, Jonathan Shipman, and Sarah Stein. They were assisted by Vice-Directors Rob Whited, Aaron Saiewitz, Quinn Swanquist, and Marcy Shepardson. Coordinating the review process, organizing concurrent sessions and panel sessions, and assigning

moderators and discussants requires a lot of work. They all did a masterful job planning the meeting and transitioning to an online format. Please volunteer to serve as a reviewer, discussant, or moderator at our upcoming Midyear Meeting or next year's Annual Meeting.

The Center for Audit Quality (CAQ) also hosted their Annual Symposium, which brings together senior practice leaders and academics for a dialogue on issues that are of importance to the profession. This year's session had panels on multinational group audits, a study on ICFR – specifically on management review controls, and the firms' systems of quality controls. You can review those panel discussions on the CAQ [website](#).

2021 Midyear Meeting

The 2021 Midyear Meeting will be a virtual meeting. It was originally scheduled at the Sahara in Las Vegas. However, like all midyear meetings, we are switching to a virtual format. We are hoping to go to Las Vegas in the future. The Co-Directors - Tamara Lambert, Scott Bronson, and Joe Schroeder - are coordinating this year's meeting. They are assisted by the Vice Chairs – Sarah Stein, Lauren Cunningham, and Steve Perreault. I want to thank them in advance. They have the difficult task of moving the meeting online. I also want to thank everyone who submitted a paper and volunteered to review.

We will once again have two events leading up to the Midyear Meeting: the Doctoral Consortium and the Audit Education Workshop. The Chair of this year's Doctoral Consortium is Jaime Schmidt, and the Vice Chair is Rick Hatfield. Jaime and Rick are putting together an excellent program. Join me in thanking KPMG for sponsoring this event, which is a great opportunity for our doctoral students. We have an outstanding committee putting together an exciting Excellence in Audit Education Workshop. The Chair of the Committee is Christine Gimbar, and the Vice-Chair is Erin Hamilton. Chris Dinkel is serving as Practice Chair. The theme of this year's workshop is "Risk Assessment and Materiality: Bringing Current Practices into the Classroom."

CAQ Grants

The CAQ's Access to Audit Personnel Program assists scholars in obtaining access to audit firm personnel to participate in their research projects. I encourage Section members to apply. The Request for Proposals (RFP) for the 2021 Access to Audit Personnel grant cycle is now available. Proposals submitted for the 2021 cycle are due to be submitted by Thursday, February 4, 2021. To view the 2021 request for proposals, [click here](#). To learn more about the application and review process, [click here](#).

In closing, I want to express my gratitude for being chosen to be the President of the Auditing Section. The previous presidents have all been outstanding. Hopefully, I can follow in their giant footsteps. I want to thank everyone who has agreed to serve in any capacity. It takes a small army of volunteers to keep the Section running. There are around 20 committees that need to be filled every year, and most of those committee assignments are not trivial. As I worked to fill the committee assignments over the summer, I was extremely grateful to everyone who so readily accepted an assignment. This is a special Section. Thanks for all you do!

Sincerely,

Keith Jones

PCAOB Update

By Megan Zietsman and Elena Bozhkova

PCAOB Chief Auditor and PCAOB Assistant Chief Auditor

Introduction

This Update addresses select PCAOB developments since the Summer 2020 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Webinar for Audit Committee Members
- PCAOB Scholars for the 2020-2021 Academic Year
- Conversations with Audit Committee Chairs
- Updates to the Research and Standard-setting Agendas
- Forums on Auditing in the Small Business Environment and on Auditing Broker-Dealers
- Staff Update and Preview of 2019 Inspection Observations
- PCAOB Conference on Auditing and Capital Markets
- Settled Disciplinary Orders

Webinar for Audit Committee Members

On July 8, 2020, the PCAOB hosted a webinar for audit committee members that provided an overview of the PCAOB's new inspection reports, auditing and inspecting audits in the COVID-19 environment, new and recent auditing standards activity (e.g., estimates, specialists, critical audit matters, and systems of quality control), data and technology, and audience Q&A. Speakers included PCAOB Chairman Duhnke, Chief Auditor Megan Zietsman, Deputy Director of Inspections Christine Gunia, and Stakeholder Liaison Erin Dwyer.

A recording of the webinar is available at <https://www.youtube.com/watch?v=it8ZNCqplBM>.

PCAOB Scholars for the 2020-2021 Academic Year

On July 13, 2020, the PCAOB announced that 234 students from U.S. colleges and universities were selected to receive a \$10,000 scholarship for the 2020-2021 academic year.

The Sarbanes-Oxley Act of 2002 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. In 2020, the Board continued a pilot program to award scholarships to students who transferred from a two-year institution to the accounting program at a four-year institution.

A description of the program, including information on the nomination process, the selection of nominating institutions, and other details can be found on the scholarship program page of the PCAOB website at https://pcaobus.org//About/Pages/Academic_Scholarship.aspx.

All participating institutions, along with the named PCAOB Scholars, are available at <https://pcaobus.org/News/Releases/Pages/234-Students-Named-PCAOB-Scholars-2020-2021-Academic-Year.aspx>.

Conversations with Audit Committee Chairs

On July 31, 2020, PCAOB staff released a new resource, *Conversations with Audit Committee Chairs: COVID-19 and the Audit*. Given the unprecedented challenges for auditors, audit committees, and issuers created by the COVID-19 pandemic, during our 2020 inspections PCAOB staff asked audit committee chairs how they are thinking about the effect of COVID-19 on financial reporting and the audit as they perform their oversight duties.

The resource is available on the PCAOB website at <https://pcaobus.org/Documents/Conversations-with-Audit-Committee-Chairs-Covid.pdf>.

Updates to the Research and Standard-setting Agendas

On September 8, 2020, the PCAOB updated its research and standard-setting agendas. Going forward, the Board plans to include in the agendas only those specific projects where the Board anticipates a public milestone (e.g., a proposal, a staff publication, or a concept release) in the next 12 to 18 months.

Consistent with the new approach and to align the research and standard-setting agendas with current priorities, the following changes were made:

- Added Auditor Independence to the standard-setting agenda to make targeted amendments to existing PCAOB independence rules to conform to changes the SEC is considering to its independence rules.
- Added a project to our research agenda on Audit Evidence to consider whether standard-setting or staff guidance is needed, given (1) the increasing prevalence of technology-based tools and (2) use of information from sources external to the company, both in the financial reporting process and as audit evidence.
- Removed Going Concern from our standard-setting agenda and Other Information and Noncompliance with Laws and Regulation from our research agenda. Following significant work on these projects, we have concluded that there is not a need at present to change our standards or take other action on these topics.

The projects on Quality Control, Other Auditors, and Data and Technology remain on our agendas as priorities of the Board. Although we have removed certain topics from our research and standard-setting agendas, we continue to monitor relevant developments on these and many other topics, particularly in light of the COVID-19 pandemic. Our monitoring activities - along with prior research, new

challenges, or other issues that may arise—could result in new projects being added to our agendas in the future.

The research and standard-setting agendas are available on the PCAOB website at <https://pcaobus.us10.list-manage.com/track/click?u=124c85b50a8374f0468d767b1&id=b2bfb48ce0&e=7401765d81>.

Forums on Auditing in the Small Business Environment and on Auditing Broker-Dealers

On September 9, 2020, the PCAOB announced that due to the COVID-19 pandemic, the 2020 Forums on Auditing in the Small Business Environment and on Auditing Broker-Dealers will be recorded and the content will be available on the PCAOB website beginning on October 19, 2020.

Staff Update and Preview of 2019 Inspection Observations

On October 10, 2020, the PCAOB released a new Spotlight publication, *Staff Update and Preview of 2019 Inspection Observations*. This Spotlight provides inspections insights ahead of the issuance of our 2019 inspection reports and covers the following topics:

- Update on PCAOB inspection transformation activities
- Observations of good practices
- Activities of the PCAOB's target team, which focuses on current audit risks and emerging topics
- Recurring deficiencies
- Technology and
- Audit committee communications.

The Spotlight is available on the PCAOB website at <https://pcaobus.org/Inspections/Documents/Staff-Preview-2019-Inspection-Observations-Spotlight.pdf>.

PCAOB Conference on Auditing and Capital Markets

The PCAOB has announced the agenda for its 2020 Conference on Auditing and Capital Markets. The conference, held October 29-30, 2020 in Washington DC, is organized by W. Robert Knechel, University of Florida, and the PCAOB Office of Economic and Risk Analysis.

The conference agenda is available on the PCAOB website at <https://pcaobus.org/EconomicAndRiskAnalysis/Conference/Pages/2020-Conference-Agenda-page.aspx>.

Settled Disciplinary Orders

The Board posted several settled disciplinary orders.

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

AICPA Auditing Standards Board Update

By Audrey Gramling

Oklahoma State University and Auditing Standards Board Member

Since my last report in March 2020, the ASB has issued several new standards and continues to work on new and ongoing projects. The Board has held multiple virtual meetings (including April, May, and July) and this report highlights the status of various ASB projects covered during those meetings).

Recently Issued Standards

For current information and additional resources on recently issued Auditing and Attestation standards, go to <https://www.aicpa.org/interestareas/frc/auditattest/auditing-standards-information-and-resources.html>

Audit Evidence

In July 2020, the ASB issued a new principles-based standard on audit evidence ([Statement on Auditing Standards No. 142, *Audit Evidence*](#)). The previous standard focused on the design and performance of audit procedures to obtain sufficient appropriate audit evidence rather than evaluating the sufficiency and appropriateness of the audit evidence itself. The new standard addresses issues such as emerging technology, professional skepticism, and expanding sources of information. The primary focus of the standard is on considering the attributes of information that contribute to an assessment of whether sufficient appropriate audit evidence has been obtained. New attributes of information for the auditor to consider include whether the information is corroborative or contradictory to management assertions, the authenticity of the evidence, and its susceptibility to bias.

Accounting Estimates

In July 2020, the ASB issued Statement on Auditing Standards No. 143, *Auditing Accounting Estimates and Related Disclosures*, to supersede SAS No. 122 section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. The standard emphasizes fundamental aspects of the auditor's focus on factors influencing estimation uncertainty and potential management bias. This standard enables auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates.

Direct Engagements

In September 2020, the Board issued a standard that creates an engagement known as a direct examination. Under Statement on Standards for Attestation Engagements (SSAE) No. 21, *Direct Examination Engagements*, practitioners can measure or evaluate underlying subject matter against criteria and provide an examination opinion that conveys the result of that measurement or evaluation without another party having first measured or evaluated the underlying subject matter. As a result of this new standard, practitioners are able to report on new and emerging nonfinancial subject matters

for entities that may not have the expertise in-house to measure or evaluate a complex, emerging subject matter.

Examples of this new type of service include:

- Measuring a company's investment transactions-the underlying subject matter-based on specified criteria to determine the rates of return on those transactions and presenting the rates of return on the transactions in a schedule of investment returns.
- Evaluating a daycare center's safety procedures and implementation of those practices based on criteria established by an educational organization. In this case, the AICPA explains that the underlying subject matter is the daycare center's safety practices and implementation of those practices. The CPA would express an opinion about whether the daycare center's safety practices followed the set criteria.

SSAE No. 21 adds a new section in AICPA Professional Standards designated as AT-C Section 206, *Direct Examination Engagements*.

Ongoing Projects

The Board continues to work on a number of projects, including the following which are to be discussed at the Board's October 2020 meeting. Agenda materials are available at <https://www.aicpa.org/research/standards/auditattest/asb/202010-asb-meeting-agenda-materials.html>

- Proposed revisions to AT-C section 210, *Review Engagements* as a final Statement on Standards for Attestation Engagements
- Proposed revisions to AU-C section 210, *Terms of Engagement* to require a prospective successor auditor, once management authorizes the predecessor auditor to respond to inquiries from the prospective successor auditor, to inquire of the predecessor auditor regarding identified or suspected fraud or noncompliance with laws or regulation (NOCLAR).
- Quality Management, including a Proposed SQMS A *Firm's System of Quality Control*, a Proposed SQMS *Engagement Quality Reviews*, and a Proposed SAS *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*
- Group audits

Other ASB Projects

A number of new members recently joined the ASB. You can read about them at <https://www.aicpa.org/research/standards/auditattest/asb/asbbiography.html>.

Bob Dohrer, who served as the AICPA's Chief Auditor since 2018, left that position on September 30, 2020, to take an executive position at RSM International. Bob joined the AICPA with a long and distinguished career at RSM and has rejoined RSM International as the network's Global Chief Operating Officer. On a personal note, I greatly appreciated the opportunity to work with Bob on the ASB, and to experience his leadership and contributions to the AICPA and the profession.

Current Issues in Auditing

By Denise Dickins

East Carolina University

Current Issues in Auditing, published by the Auditing Section of the American Accounting Association, (<https://meridian.allenpress.com/cia>), 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.

Denise Dickins and Keith Urtel assumed responsibility as co-editors of *Current Issues in Auditing* on July 1. During their 3-month tenure, there have been 13 new submissions and six re-submissions in response to requests for revision. Of the 13 new submissions, 62 percent were rejected, 15 percent were withdrawn, 16 percent are still under review, and 7 percent have been accepted. The average time between submission and initial decision was 24 days.

A call for papers, "Collaborations of Auditing Academics and Practitioners" is outstanding. Submissions are requested by December 31, 2021. Information can be found at: https://aaahq.org/Portals/0/documents/calls/2020/CIIA_Call%20For%20Papers_Collaborations%20of%20Auditing%20Academics%20and%20Practitioners.pdf

In addition to the call for papers, authors can also submit their work to *Current Issues in Auditing* (<https://aaahq.org/Research/Journals/Section-Journal-Home-Pages/Current-Issues-in-Auditing>).

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: <https://meridian.allenpress.com/cia/publish-ahead-of-print>.

Have you Seen...?

Lindsay M. Andiola, Virginia Commonwealth University

Candice Hux, Northern Illinois University

James D. Whitworth, University of South Florida

“Improving Auditors’ Consideration of Evidence Contradicting Management’s Estimate Assumptions.”
By Ashley Austin, Jacqueline Hammersley and Michael Ricci. *Contemporary Accounting Research* 37
(2): 696-716.

This study examines two interventions (a balanced focus vs. supporting focus of documenting evidence and the strength of accuracy goals) that could reduce auditors’ bias in evaluating management’s estimates. Using motivated reasoning theory, the authors predict that a balanced documentation focus will improve auditors’ assessment of biased estimates, and that the effect will be larger when auditors have weaker relative to stronger accuracy goals. They find that a balanced documentation focus results in auditors documenting more inferences that contradict management’s estimate assumptions, but find no increase in their overall documentation of contradicting facts. This suggests a balanced focus affects how auditors interpret contradicting evidence rather than simply increasing their documentation. Importantly, the effects of reduced dismissiveness also improve auditors’ evaluations of a biased estimate and subsequent actions. The authors do not find that the strength of the auditors’ accuracy goal moderates the effect of a balanced focus. The findings provide new insights to the documentation literature, contribute to motivated reasoning theory, and offer a suggestion for improving audit quality.

“Do Client Bankruptcies Preceded by Clean Audit Opinions Damage Auditor Reputation?” By Nathan Berglund. *Contemporary Accounting Research* 37 (3): 1914-1951.

This study examines the idea that a false negative (type 2 error) going concern error has a detrimental impact on the auditor. Surprisingly, the author finds little negative consequences to the local office of the auditor following an audit client going bankrupt with a clean going concern report: future audits fees do not fall, the office is not more likely to be dismissed, and the office is not any less likely to gain new clients. Considering the market reaction, the author does find a modest negative incremental response for clients of an office that makes a type 2 error. However, those effects are isolated to the financial crisis period (2008-2010). Finally, the study considers whether regulators and users of financial information should be concerned about type 2 errors. The author finds an audit office with a type 2 error is positively associated with future accounting restatements, suggesting that despite modest consequences to the local office signing off on a type 2 error, there is reason to be concerned that these errors may reflect lower audit quality.

Church, B., Dai, N., Kuang, X., and X. Liu. 2020. “The Role of Auditor Narcissism in Auditor-Client Negotiations: Evidence from China.” By Bryan Church, Narisa Dai, Xi Kuang and Xuejiao Liu. *Contemporary Accounting Research* 37 (3): 1756-1787.

This study takes a multi-pronged approach to consider the impact of auditor narcissism in negotiations with audit clients in China. First, using the archival method, the authors document an association between auditor narcissism and both longer audit delay and smaller discretionary accruals. Next, in an experiment, the authors find that auditor narcissism is associated with negotiations that take longer to resolve or reach an impasse, as well as lower reported asset values after negotiation. Finally, the authors consider a qualitative approach, incorporating field interviews with practicing audit partners, which corroborate the idea that narcissistic auditors may slow negotiations and resolution of issues down, but

also may be more likely to stand their ground when clients make unreasonable demands or are overly aggressive.

“A Multi-method Analysis of the PCAOB’s Relationship with the Audit Profession.” By Matthew Ege, W. Robert Knechel, Phillip Lamoreaux and Eldar Maksymov. *Accounting, Organizations and Society* 84: In-Press.

This study investigates the interactions between large audit firms and the PCAOB during the initial years of PCAOB regulation. Responsive regulation (RR) theory suggests that a mismatch in views on regulation between auditors and the PCAOB could lead to the PCAOB perceiving the firms’ public disagreement as unwillingness to comply, and responding by penalizing firms. Consistent with theory, the results reveal that a negative tone in audit firms’ inspection response letters is positively associated with future inspection findings. To further investigate the interactions and triangulate these archival findings, the authors interview eight PCAOB inspectors and six audit partners involved in these early inspection exchanges. They find that the PCAOB viewed public disagreement as indicators of noncompliance, incorporated public disagreement into subsequent inspections, and escalated penalties for noncompliance. As a result, this led to a culture of resentment towards the PCAOB at the firms. These findings contribute to the regulator literature and theory by providing new insights about the regulator-regulatee interactions and offering suggestions to improve the relationship between the PCAOB and audit firms.

“Audit Quality Indicators: Perspectives from non-Big 4 Audit Firms and Small Company Audit Committees.” By M. Kathleen Harris and L. Tyler Williams. *Advances in Accounting* 50: In-Press.

Using non-Big 4 audit firms’ comment letter responses to the PCAOB’s Concept Release on 28 proposed audit quality indicators (AQIs), this study finds that several Non-Big 4 firms express concern about the infeasibility, misinterpretation, and potential for unintended consequences of many proposed AQIs. Specifically, only three AQIs are perceived as feasible: (1) staffing leverage, (2) manager and staff workloads, and (3) audit hours and risk area. To gather further evidence from a different constituent group, the authors narrow the list to 11 potential AQI measures based on prior literature and survey small company audit committee members about these measures. They find audit committees primarily focus on five of the proposed measures: (1) experience of audit personnel, (2) auditor personnel with specialized skills and knowledge, (3) the firm’s timely reporting of internal control issues, (4) audit fees, and (5) PCAOB/SEC enforcement proceedings against an audit firm. The audit committee members also perceive the former three indicators to possess the highest level of effectiveness in the evaluation of audit quality. These findings provide important insights for audit regulation regarding the perceived effectiveness of various proposed AQIs from two constituent groups and motivate future research on AQIs.

“When Are Audit Firms Sued for Financial Reporting Failures and What Are the Lawsuit Outcomes?” By Clive Lennox and Bing Li. *Contemporary Accounting Research* 37 (3):1370-1399.

The authors consider the circumstances surrounding lawsuits involving audit firms, first considering the likelihood of a lawsuit, then considering the outcome of lawsuits involving auditors. Interestingly, they find an insignificant relationship between an accounting restatement and a lawsuit involving the auditor. However, certain types of accounting deficiencies show a significant association with lawsuits. More specifically, fictitious revenues, fictitious assets or reductions of expenses, and overvaluing (undervaluing) existing assets (revenues) are positively associated with the auditor being named in a lawsuit. Auditor type also matters, as the Big 4 audit firms are less likely to be sued, but consistent with the deep pockets’ hypothesis, when they are sued they pay out more.

Have You Seen These Educational Resources?

Chad Simon
Utah State University

“Something Phish-y is Going On Here: A Teaching Case on Business Email Compromise.” By Kathleen Bakarich and Devon Baranek. *Current Issues in Auditing* 14 (1): A1-A9.

As the title suggests, email scams are not just affecting individuals. This case study discusses details about a company, Ubiquiti Networks, that fell victim to an email scam that cost the company millions. The scam was carried out by fraudsters who purported that the company was entering into a major acquisition and led a Ubiquiti employee to make over a dozen transfers to accounts across the globe. The discussion also notes the FBI’s involvement in following up on the scam and notes the SEC’s reaction to companies falling prey to these scams.

“Channel-Stuffing Reinvented: Earnings Management in Toshiba’s Personal Computers Division.” By Mahendra Gujarathi and Amitabh Dugar. *Issues in Accounting Education* 35 (3): 25-38.

This case describes a multi-year fraud committed by the Japanese company Toshiba. The discussion highlights the pressures placed on company personnel to meet improvement benchmarks as well as some of the mechanics involved in the accounting that was used to execute the fraud (e.g., examples of journal entries are included that can facilitate students’ ability to better comprehend how the fraud was carried out). The authors also include discussion of the unique nature of the channel-stuffing that took place, quotes from company management, and a discussion of the company’s external auditor.

“Challenges when Auditing Cryptocurrencies.” By Nishani Vincent and Anne M. Wilkins. *Current Issues in Auditing* 14(1): A46-A58.

This article raises attention to relevant risks and discussion surrounding the issue of auditing firms that engage in transactions using cryptocurrencies. The authors package much of the discussion around familiar management assertions and relate those assertions to potential risks, audit procedures, and additional questions to consider, including questions to think about in this unique and emerging area of business. Given this evolving issue, this topic could effectively engage students and lead to fruitful class discussions and critical thinking exercises.