

Newsletter Contents

Report of the President

PCAOB Standards Update

Publication Highlight: Current Issues in Auditing

Have You Seen...?

Have You Seen These Educational Resources?

Report of the President

By Allen Blay



As we move well into the fall semester and I write my first letter as President of the Auditing Section, I want to update everyone on some of the “good news” around the academic world of auditing. Our section is strong – 931 members strong as of the end of October – including 181 student members. The strong student membership and interest in auditing academics is an excellent sign for our future. I want to take a moment to congratulate and thank several of our members for their willingness to serve our section. First, I want to congratulate and thank Jennifer Joe, who is currently our VP Academic and will be the next section President. I’ve known Jennifer for a long time. I won’t age us by saying how long. She has always been willing to serve in any role for our section, and I’m thrilled that she has joined our Executive Committee. Second, I want to thank Christine Earley as she takes on the Past President role. Chris must not sleep between her roles with her university, the Audit Educator’s Bootcamp, and our section leadership role. Next time you see Chris, be sure to let her know how much we all appreciate her efforts. I also want to thank Emily Griffith, Chad Simon, Ken Bills, Margot Cella, and Karla Zehms for their new and continued service on our Executive Committee. A special thanks and welcome to Karla who stepped up to replace our new AAA President Elect Mark Taylor as Historian. Easiest and fastest email request I ever had to send – Karla replied in about 30 seconds with, ‘My policy with regards to the Auditing Section is to always say YES!’

Annual Meeting 2022

The 2022 Annual Meeting was one of the smallest we have had. With costs up and university budgets down, it just wasn’t possible for many people (including me!) to make it to San Diego. Those who did attend were treated to an outstanding program put together by the Annual Meeting planning committee, made up of Chairs (Josh Gunn, Lauren Reid, Andrew Trotman and Ally Zimmerman) assisted by the Vice Chairs (Eric Condie, Christine Gimbar, Roy Schmardebeck, and Tim Seidel). Eric, Christine, Roy, and Tim will continue on as chairs next year and would greatly appreciate it if you submit your items for the 2023 Annual Meeting in Denver. Submissions should be accepted soon.

2023 Midyear Meeting

The 2023 Auditing Section Midyear Meeting is being held in Austin, TX at the Hilton Austin January 12-14. Quinn Swanquist and Aaron Saiewitz have done an outstanding job planning the details of the event and Vice Chairs Josh Gunn, Lauren Reid, Andrew Trotman and Ally Zimmerman have worked hard to put together an outstanding program. If you haven't registered yet, please do! It sounds like this is going to be a very big and well attended conference. The location is outstanding and very close to the Austin music scene. The early bird registration deadline is December 12, and the hotel block may fill up before then. The Excellence in Auditing Education Workshop is being held on January 12 and discusses the important topic of Developing Auditors' Mindsets and Skillsets. Sanaz Aghazadeh is directing the workshop this year. The meeting will also feature a doctoral consortium directed by Matt Ege. I hope to see all of you in Austin!

AJPT

Our section journal continues to shine under the leadership of Senior Editor Jayanthi Krishnan. We are excited to have announced recently that Mike Wilkins has agreed to become the next Senior Editor when Jayanthi's term ends in 2023. We are grateful and excited that Mike has taken on this role. He has years of editorial experience, not just with AJPT, but with several other top ranked journals.

Enrollments and Demand for Auditors

At Florida State University, we have had significant declines in enrollments of accounting majors over the past several years, with many of these students deciding to major in finance. However, the demand for auditors has stayed extremely strong with many firms still seeking spring interns and unable to hire enough full time staff. This year, I want to focus on recruiting students into accounting and will make that a recurring theme in my communications. What are you doing at your university to recruit students into auditing and accounting? Have you tried new initiatives in your principles classes? Is there any new messaging ~~are you~~ you are giving to freshman and sophomore students to encourage them to join the ranks of successful accounting graduates? Reach out to me and let me know. I am hoping to compile a list of ideas and share it.

In closing for this time, it is an exciting time to be in our profession. With all the changes coming to the CPA exam, and all the advances in auditing technology, we are lucky to be able to shape the future of the profession through our research and teaching. I hope all of you have a fantastic finish to your fall semesters or quarters and I look forward to seeing you in Austin in January.

Sincerely,

Allen

PCAOB Update

By Barbara Vanich and Elena Bozhkova

PCAOB Acting Chief Auditor and PCAOB Assistant Chief Auditor

Introduction

This Update addresses select Public Company Accounting Oversight Board (PCAOB) developments since the Summer 2022 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- PCAOB Scholars for the 2022-2023 Academic Year
- PCAOB Releases Draft Five-Year Strategic Plan for Public Comment
- 2022 Audit Committee Resource
- Report on Inspections of Audits of Broker-Dealers
- Statement on Agreement with Chinese Authorities
- Observations From the Target Team's 2021 Inspections
- Request for Information and Comment on PCAOB Interim Attestation Standards
- Updated Standard-setting and Research Agendas
- Meeting of PCAOB Investor Advisory Group (IAG)
- PCAOB Conference on Auditing and Capital Markets
- Settled Disciplinary Orders

PCAOB Scholars for the 2022-2023 Academic Year

On July 14, 2022, the PCAOB announced that 250 students from U.S. colleges and universities were selected to receive a \$10,000 scholarship for the 2022-2023 academic year.

The Sarbanes-Oxley Act of 2002 provides that funds generated from the collection of PCAOB monetary penalties must be used to fund a merit scholarship program for students in accredited accounting degree programs. The PCAOB Scholars Program was created to identify eligible students and to award funds through the students' educational institutions.

A description of the program, including information on the nomination process, the selection of nominating institutions, and other details can be found on the PCAOB Scholars Program page 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-events/news-releases/news-release-detail/250-students-named-pcaob-scholars-for-the-2022-2023-academic-year>.

PCAOB Releases Draft Five-Year Strategic Plan for Public Comment

On August 16, 2022, the PCAOB released a draft of its five-year strategic plan, inviting the public to comment on how the organization will pursue its mission of protecting investors from 2022 to 2026. The plan lays out an ambitious roadmap built around four goals:

- Modernizing standards
- Enhancing inspections
- Strengthening enforcement
- Improving organizational effectiveness.

The comment period closed on September 15, but the draft strategic plan and related materials are available at <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-seeks-public-comment-on-five-year-strategic-plan-for-protecting-investors>.

2022 Audit Committee Resource

On August 17, 2022, the PCAOB released a new Spotlight publication, “Audit Committee Resource.” Designed to serve as a timely reference for auditors, audit committee members, investors, and others, the Spotlight offers questions that audit committees of public companies might want to consider as part of their ongoing engagement and discussion with their auditors, including how the auditors are responding to the financial reporting and audit risks posed by the current economic environment.

The Spotlight is available at https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/2022-audit-committee-resource-spotlight.pdf?sfvrsn=fb550f2b_4.

Report on Inspections of Audits of Broker-Dealers

On August 19, 2022, the PCAOB released its 2021 “Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers.” The report provides (1) information about the 2021 inspections approach, (2) a summary of 2021 inspections observations, and (3) a description of “good practices,” which include brief scenarios and possible procedures that may be effective to address those scenarios. The annual report is available at <https://pcaobus.us10.list-manage.com/track/click?u=124c85b50a8374f0468d767b1&id=eba9a11bce&e=7401765d81>.

In addition to the annual report, the PCAOB released a separate publication, “Supplementary Information Related to Audits of Brokers and Dealers.” This supplement presents information about firms selected for inspection, as well as audit and attestation engagements for broker-dealers selected for review, in 2021 and prior years. We also provide supplementary information about the results of our inspections stratified by various firm, inspection, and broker-dealer characteristics. The supplement is available at <https://pcaobus.us10.list-manage.com/track/click?u=124c85b50a8374f0468d767b1&id=fe11697474&e=7401765d81>.

Statement on Agreement with Chinese Authorities

On August 26, 2022, PCAOB Chair Erica Y. Williams released a statement after the PCAOB signed a Statement of Protocol with the China Securities Regulatory Commission and the Ministry of Finance of the People's Republic of China. This represents the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong completely, consistent with U.S. law.

The statement and a fact sheet on the agreement with Chinese authorities are available at <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-signs-agreement-with-chinese-authorities-taking-first-step-toward-complete-access-for-pcaob-to-select-inspect-and-investigate-in-china>.

Observations From the Target Team's 2021 Inspections

On August 31, 2022, the PCAOB released a new Spotlight publication, "Observations from the Target Team's 2021 Inspections." This Spotlight provides investors and other stakeholders a view into the target team's work in 2021, including perspectives on the auditor's responsibilities, observations, and good practices. The Spotlight is organized by the target team's four core focus areas for 2021:

- Fraud
- Interim reviews of special purpose acquisition companies
- Going concern reporting, and
- Cash and cash equivalents.

The Spotlight is available at https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/target-team-spotlight.pdf?sfvrsn=b6a83e28_4.

Request for Information and Comment on PCAOB Interim Attestation Standards

On September 26, 2022, the PCAOB issued a staff request for information and comment on matters related to the application and use of the Board's interim attestation standards. Input from the public will help inform any potential recommendation the staff may make to the Board regarding updates to the interim attestation standards.

The request for information and comment is available at https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/standards/staff-request-for-comment/rfc-application-use-interim-attestation-standards.pdf?sfvrsn=fd791256_2.

Comments are requested by October 26, 2022. Comment letters received can be accessed at <https://pcaobus.org/oversight/standards/standard-setting-research-projects/attestation-standards-update/staff-request-for-information-and-comment-application-and-use-of-the-pcaob-s-interim-attestation-standards>.

Updated Standard-setting and Research Agendas

On October 12, 2022, the PCAOB announced additions and revisions to the agendas, reflecting accomplishments and developments to date in 2022.

Other Auditors Project Completed

In June 2022, the Board adopted amendments to its auditing standards to strengthen requirements that apply to audits involving multiple audit firms, thus completing a project initiated in 2016. With the SEC's August 2022 approval of the Board's action, the Other Auditors project has been removed from the standard-setting agenda.

Three New Projects Added

The PCAOB further expanded its standard-setting and research agendas with three new projects.

Two of the new projects have been added to the short-term standard-setting agenda: Interim Standards – AS 1000 and Amendments Related to Certain Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Data Analysis. The amendments related to certain aspects of the designing and performing technology-assisted data analysis project resulted from the successfully completed research project on Audit Evidence, which has now been removed.

One project has been added to the PCAOB's research agenda: Firm and Engagement Performance Metrics.

Three Project Timelines Updated

The anticipated timing for the Confirmations project has moved up to 2022 from 2023, with the Board expected to issue a re-proposal before year's end.

For two projects — Noncompliance with Laws and Regulations and Attestation Standards Update — the anticipated timing for action is now 2023. Board action on these projects continues to be expected in the next 12 months.

The standard-setting and research agendas are available at:

<https://pcaobus.org/oversight/standards/standard-setting-research-projects>.

Meeting of PCAOB IAG

On October 12, 2022, the PCAOB held a virtual meeting of the IAG. Agenda topics included:

- PCAOB recent developments
- PCAOB standard-setting update
- Firm and engagement performance metrics
- IAG briefing to the PCAOB on data and technology, and
- IAG briefing to the PCAOB on emerging issues.

The agenda and related materials for the meeting are available at: <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting>.

PCAOB Conference on Auditing and Capital Markets

The PCAOB has announced the 2022 Conference on Auditing and Capital Markets.

More information about the conference is available at <https://www.ssrn.com/index.cfm/en/janda/announcement/?id=11793>.

Settled Disciplinary Orders

The PCAOB posted several settled disciplinary orders.

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

Current Issues in Auditing Update

By Denise Dickins and Keith Urtel

East Carolina University and University of Notre Dame

We have a couple of reminders and updates to share in this issue of *The Auditor's Report*.

Reminders

For academic research to make an impact, practitioners, managers, and regulators must be willing to read it and must know it exists. The first step to attaining impact is conducting research that is relevant to practice. While we all believe that our work is important, during our tenure as editors we have found that practitioners often perceive accounting academic research as “interesting, but irrelevant.”

Co-authoring or consulting with practitioners increases the likelihood that research is practice relevant. Engaging with practitioners on research design can improve the validity, reliability, and generalizability of results. We strongly encourage submission of manuscripts that describe the results of research projects that are co-authored with practitioners.

In addition, to reduce the likelihood that research lacks practice relevance, authors may pre-submit a short summary of their planned research project to the academic co-editor. Feedback from a partner-practitioner will be provided within seven days. There is no fee for pre-submissions. While the pre-submission process is not a substitute for the formal peer review process, it does eliminate the possibility that submitted manuscripts are desk-rejected for a lack of practice relevance. This is important as the AAA has recently announced that submission fees will no longer be refunded when a manuscript is desk-rejected.

The second step to attaining impact is making practitioners aware of academic research. *CIIA* is an open access journal and several other AAA journals provide free access to recently published articles. While we actively promote *CIIA* articles, and the AAA actively promotes articles published in its journals that editors believe may be of particular interest to practitioners or other constituents, we can't reach everyone. Authors should send links to their research [not copies – we don't want to violate copyright infringement laws] to their practitioner contacts. All of us know practicing CPAs, internal auditors, and accounting managers - as most alumni are accounting practitioners. All the AAA journals report view, download, and citation statistics that allow you to track the impact of your research.

Updates

We are finalizing the details for a Call for Papers for Internal Audit-related Research which we expect to issue by the end of the year. Potential research questions include:

- How has the role of the internal auditor evolved in the past decade? Has the amount of time spent on operational projects increased or decreased? To what extent does ERM drive the internal audit plan?
- What role do internal auditors play in ESG and Cybersecurity? What should be their role? Is there evidence that connects internal auditors and ESG and Cybersecurity outcomes?
- What is the association between internal audit(or) characteristics (e.g., qualifications, department size, independence, remote working, turnover, age, gender) and outcomes (e.g., restatements, cyber security incidents, ESG assurance)?
- How has the increase in outsourced processes (e.g., billing, human resources, IT applications) impacted the work of internal auditors (e.g., use of SOC reports)?

The Spring 2023 Issue of *CIIA* will include a Special Forum of articles on ESG matters. We hope this collection of articles will be informative to practitioners and academics and will stimulate additional ESG-related research.

We look forward to reading your research. Your continued support of *CIIA* is greatly appreciated.

Denise and Keith

Have you Seen...?

**Candice Hux, Northern Illinois University
Jenna J. Burke, University of Colorado Denver
Jenny McCallen, University of Georgia**

“Auditors’ Response to Management Confidence and Misstatement Risk.” By Sanaz Aghazadeh and Jennifer R. Joe. *Accounting, Organizations and Society* 101: 101348.

This study investigates whether auditors’ response to the risk of material misstatement is influenced by the extent to which management exhibits confidence in their explanations. Using a 2x2 experiment that manipulates management’s confidence (high versus low) and the risk of material misstatement (high versus low), the authors find that when management confidence is high, auditors plan to perform the same level of testing for both high and low risks of material misstatement. Further, auditors’ judgment regarding the level of testing moderates their decisions about the nature of subsequent testing such that higher confidence leads to higher inquiry-weighted testing approaches. These results suggest that despite auditor awareness of potential management bias, management’s confidence can influence auditors’ response to the risk of material misstatement.

“Do U.S. Investors Value Foreign Component Auditors?” By Bingyi Chen and Jenelle K. Conaway. *Journal of Accounting Research* 60 (3): 805-851.

This study examines the market reaction surrounding PCAOB inspection access and inspection reports related to foreign component auditors to investigate whether investors consider these auditors when valuing U.S. multinational corporations. For inspection access, results show a significant negative reaction to U.S. multinationals when the PCAOB is denied access to inspect foreign auditors in jurisdictions where the company has significant operations and a significant positive reaction when those countries later allow inspection. For inspection reports, results similarly show a significant negative reaction to U.S. multinationals when foreign component auditors receive an inspection finding and a positive reaction to a deficiency-free inspection report. Overall, findings indicate that investors do consider foreign component auditor quality when valuing U.S. multinational companies.

“Fool Me Once, Shame on You: Fool Me Twice, Shame on Me: The Long-term Impact of Arthur Andersen’s Demise on Partners’ Audit Quality.” By Feng Guo, Ling Lei Lisic, Jeffrey Pittman, Timothy A. Seidel, Mi Zhou, and Ying Zhou. *Contemporary Accounting Research* 39 (3): 1986-2022.

In 2002, Andersen surrendered its CPA licenses and right to practice before the SEC, and its employees sought employment elsewhere. Leveraging the disclosure of audit partner identity in Form AP, the authors collect the employment history of Big 4 audit partners from LinkedIn and identify those who were employed at Arthur Andersen during its collapse. Of the 1,645 audit partners examined in the 2016-2019 sample, 199 were Andersen employees during the collapse. The authors predict that experiencing this failure firsthand will influence future behavior. Findings support this theory, where partners who experienced Arthur Andersen’s collapse are now associated with higher audit quality and audit fees. Additional analyses suggest stricter monitoring of clients by these partners as the underlying

mechanism. Practically, the evidence implies that individuals who experience audit failures firsthand may later deliver higher audit quality.

“How Do Auditors Respond to Competition? Evidence from the Bidding Process.” By Nicholas J. Hallman, Antonis Kartapanis, and Jaime J. Schmidt. *Journal of Accounting and Economics* 73 (2-3): 101475.

This study uses machine learning to detect audit engagement bidding among Big 4 auditors and examine whether competition among auditors during the bidding process impairs or improves audit quality. During a bidding process, the incumbent (i.e., continuing) auditor faces competitive pressure which could compromise independence or could result in a more conservative audit. The authors creatively use the IP address associated with SEC downloads to track Big 4 auditor views of other Big 4 auditors' clients and then train a random forest machine learning algorithm to predict a company-year measure of competitive bidding. Results demonstrate that, during bidding years, incumbent auditors perform higher-quality audits and grant modest audit fee concessions. Overall, these findings demonstrate that incumbent auditors behave more conservatively in bidding years and that competition benefits audit markets.

“You Can’t Get There from Here: The Influence of an Audit Partner’s Prior Non-Public Accounting Experience on Audit Outcomes.” By Ling Lei Lisic, Jeffrey Pittman, Timothy A. Seidel, and Ally B. Zimmerman. *Accounting, Organizations and Society* 100: 101331.

This paper examines how the prior experience of audit partners influences audit outcomes using semi-structured interviews and empirical analysis of audit quality measures. The authors interview 29 audit partners and evaluate the role of various career paths into public accounting. Interview evidence suggests that prior industry experience can potentially improve audit quality through greater perspective-taking. Interviewees suggest that prior industry experience increased their ability to evaluate and respond to risk, enhanced communication between the auditor and client, and increased their awareness of client motivations. The authors then empirically examine whether industry experience and relational differences improve audit quality, finding that industry experience in oversight roles has a significant influence on audit quality and efficiency.

“Lessons from Leveraging Technology in Auditing during COVID-19: An Emerging Economy Perspective.” By Neeraj Sharma, Garima Sharma, Mahesh Joshi, and Sharad Sharma. *Managerial Auditing Journal* 37(7): 869-885.

This study examines challenges posed by COVID-19 restrictions on audit processes and explores how technology was leveraged to conduct audits during this period. The authors conducted semi-structured interviews with senior auditors of various audit firms in India. They find that auditors heavily relied on and used technology on audits during the COVID-19 restrictions, and such use has helped smaller firms overcome their reluctance to adopt certain technologies and garnered support for the future integration of emerging technologies into their auditing practices.

Have You Seen These Educational Resources?

**Sean Dennis
University of Central Florida**

“The Fyre Fraud Case: A Case Exploring the Dark Triad Personality.” By Megan Hess. *Issues in Accounting Education* 37 (3): 125-140.

This case introduces students to “dark triad” personality characteristics by invoking the 2017 Fyre Festival. The Fyre Festival is commonly known as “the greatest party that never happened” and is the subject of documentaries on both Hulu and Netflix. The case provides a background on the Fyre Festival and it’s criminal mastermind, William “Billy” McFarland. Students use this information to understand and identify dark triad personality characteristics (Machiavellianism, Narcissism, and Psychopathy). Students also analyze red flags and suggest due diligence steps to protect potential investors from being defrauded. This case uses relatable pop culture references to help students appreciate emerging trends in fraud detection and prevention.

“Where is Public Company Auditing Heading?” By Dana Hermanson, Heather Hermanson and Susan Hermanson. *The CPA Journal* March 2020.

This article provides a rigorous and insightful analyses of important issues currently facing the auditing profession. Notably for educators, this article discusses the relatively low starting pay and intense working conditions at large accounting firms, as well as the impact of emerging technology. The article raises awareness of several questions and issues for stakeholders of public company auditing (including educators) to consider going forward. For example (paraphrased), have regulatory costs gone too far? Is this industry destined to remain a short-term “churn and burn” stop for many? What do educators tell their students about public company auditing careers? The article is very concise – and a great read for all educators, especially those who work with firms or advisory boards.

“Only Reliable Parts and Supplies, Inc.: Assessing and Documenting the Design of Internal Controls.” By Kevin Brown and Susan Lightle. *Journal of Accounting Education* (60): September 2022.

This case study gives students a hands-on experience with tests of design on a building materials company. Students pick up where a recently departed in-charge senior left off in the control evaluation stage. The case provides students with background information about the client and a transcript of the former senior’s interview with the client’s controller. Students use this information to prepare a flowchart, complete a risk assessment workpaper, and prepare a memo for the audit file. This case study challenges students to think critically about control risk at the assertion level.