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## Report of the President

By Christine Earley



As with my last President's Letter in the Fall, I am saddened to begin this letter with the news that our colleague, Lori Holder-Webb, recently passed away after a long illness. . Some of you may have met Lori at numerous Auditing Section and AAA conferences. She was active in our section as well as in the AAA at large (for example, she served as senior editor of *Issues in Accounting Education*). She was also the wife of Jeff Cohen, who received the Distinguished Service Award from our section this past January. The AAA has re-published Lori's obituary at the following link: <https://aaahq.org/Outreach/In-Memoriam>. The obituary paints a wonderful picture of a life well lived. We will miss Lori greatly and send our deepest condolences to Jeff.

### **Auditing Section Midyear Meeting, Doctoral Consortium, and Excellence in Auditing Education Workshop**

I am happy to report that the Auditing Section Midyear meeting returned in person in January and by all accounts it was a resounding success! Despite one small issue with a fire alarm system that failed to reset properly which interrupted the Friday afternoon concurrent session, the meeting went off without a hitch and I had many conversations with members who were very happy to be back together in person. The final count was 353 attendees, which is a great turnout for our first in person meeting since 2020. I would like to thank our Meeting Co-chairs, Lauren Cunningham, Steve Perreault and Sarah Stein once again, as well as Vice Chairs, Aaron Saiewitz, Marcy Shepherdson, and Quinn Swanquist for their heroic efforts in dealing with last minute changes and cancellations (a special shout out to Quinn who managed to keep sessions running smoothly through the Friday fire alarm incident!). As usual, we recognized our Section award winners at Friday's luncheon. You can find the list of winners in this newsletter, and I encourage you to reach out and congratulate them on their wonderful achievements. In addition, I especially want to acknowledge Ray Whittington, Jennifer Joe, Helen Brown-Liburd, Stephani Mason, Dereck Barr-Pulliam, Kim Walker, and Kecia Williams Smith for their lovely tribute to Sandra Shelton at the Saturday luncheon.

I also want to thank Rick Hatfield for organizing the doctoral consortium. We had 53 doctoral participants and 14 faculty participants who put on a terrific program. In addition to the consortium closing reception, for the first time we held another special reception for attendees currently seeking faculty positions to meet with employers who are hiring. Feedback from this special reception was very positive and the AAA is considering adopting this type of reception as a model going forward.

Also, on Thursday afternoon the Excellence in Auditing Education Workshop was held, organized by Erin Hamilton and her committee (Sanaz Aghazadeh and Chris Dinkel, with assistance from Margot Cella). I attended the workshop, and it was excellent. It featured a panel of experts in ESG reporting and assurance issues as well as a hands-on session using an Alteryx case from the EY Academic Resource Center (EYARC). My thanks to Catherine Banks and David Wood for facilitating a great EY session.

### **Annual Meeting 2022**

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) are currently hard at work on the program for the annual meeting in San Diego. The program features great paper submissions, and several panels, including one from the University of Illinois-Deloitte Foundation Center for Business Analytics and another from the CAQ. We are also looking forward to the Auditing Section luncheon on August 1st, which will feature remarks by Lara Abrash, the Chair and CEO of Deloitte & Touche, LLP. We hope you can join us!

### **Audit Educator's Bootcamp 2022**

The Audit Educator's Bootcamp will once again return to an in person format this year and will be held at the Chicago offices of EY (this year's host firm) from June 21-23. I will be instructing the Bootcamp along with Jason Smith, and we will be joined by firm professionals each day to provide their insights and candid observations about the topics covered and the state of the auditing profession. As in past years, we will provide hands-on activities and instructional resources throughout the three-day session. Registration is limited to 35 participants. Auditing section members had the first opportunity to register before registration was opened up to other AAA members. Many thanks to our host firm, EY for providing the site as well as financial and logistical support for the Bootcamp.

### **Committee Activities**

Our section committees having been busy with various activities such as planning for regional meetings, drafting comment letters for standard setters, commenting on the CPA evolution model, selecting meeting award winners, and updating our section website. If you would be interested in serving on a section committee, please contact Allen Blay, the current VP Academic, who will be making committee assignments by the end of June.

I hope all of you had a productive and rewarding spring semester and I look forward to seeing you at the Audit Educator's Bootcamp and the AAA Annual Meeting this summer!

## Awards Presented at 2022 Auditing Section Midyear Conference

### Audit Midyear Meeting Best Behavioral Paper

Derrick Barr-Pulliam, Jennifer Joe, Stephani Mason and Kerri-Ann Sanderson

*(From Left: Presenter Christine Earley, Derrick Barr-Pulliam, Jennifer Joe, Stephani Mason and Kerri-Ann Sanderson)*



**Audit Midyear Meeting Best Archival Paper  
Jade Huayu Chen**

*(From Left: Jade Huayu Chen and Presenter Christine Earley)*



**Audit Midyear Meeting Best Phd Student Paper  
Yi Luo**

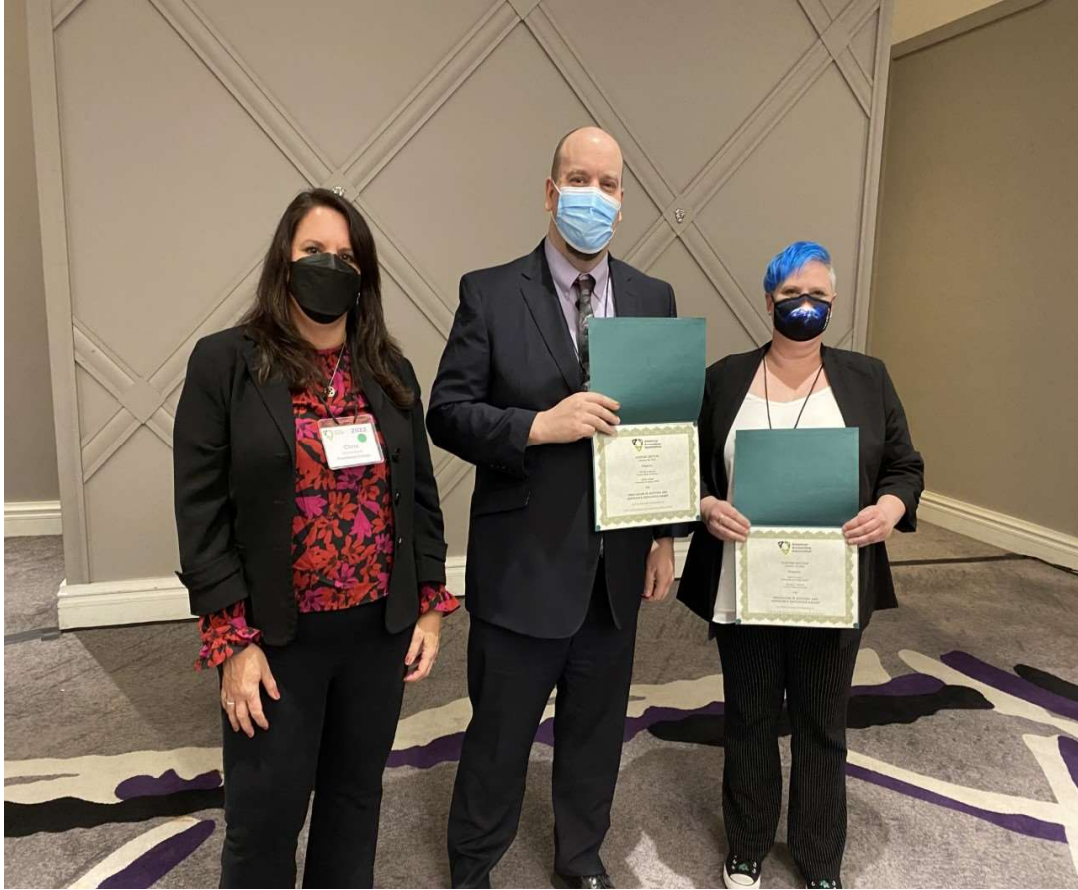
*(From Left: Yi Luo and Presenter Christine Earley)*



**Innovations in Audit Education  
Michael Barnes and Kathryn Enget**



*(From Left: Presenter Christine Earley, Michael Barnes and Kathryn Enget)*



**AJPT Reviewer Awards**  
**Sarah Stein, Lauren Reid and Josh Gunn**

*(From Left: Sarah Stein, Presenters Christine Earley and Jayanthi Krishnan.  
Not Pictured: Lauren Reid and Josh Gunn)*





**AJPT Best Paper Award  
Denise Downey and Jean Bedard**

*(From Left: Denise Downey, Presenters Chris Agoglia and Christine Earley.  
Not Pictured: Jean Bedard)*



**Outstanding Auditing Dissertation and Dissertation Chair  
Tyler Kleppe, Cory Cassell and Jonathan Shipman**

*(From Left: Presenter Christine Earley, Tyler Kleppe and Jonathan Shipman.  
Not Pictured: Cory Cassell)*



**Notable Contribution to the Auditing Literature**  
**Emily Griffith, Jacqueline Hammersley and Kathryn Kadous**

*(From Left: Presenter Christine Earley, Kathryn Kadous, Emily Griffith, Jacqueline Hammersley, Presenter Keith Czerney)*



**Distinguished Service  
Jeff Cohen**

*(Recipient unavailable for photograph)*

**Outstanding Educator**  
**Karla Zehms**

*(Recipient unavailable for photograph)*

# **PCAOB Standards 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 Fall 2021 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Staff Update and Preview of 2020 Inspection Observations
- New Board Members Sworn in
- HFCAA Determinations Regarding Mainland China and Hong Kong
- Updated Staff Guidance on Form AP
- Two New Advisory Groups
- Settled Disciplinary Orders

#### **Staff Update and Preview of 2020 Inspection Observations**

On October 18, 2021, the PCAOB released a new Spotlight publication, “Staff Update and Preview of 2020 Inspection Observations.”

In 2020, the PCAOB inspected 153 audit firms, reviewing portions of 617 audits that generally had financial years ended during 2019 and the first half of 2020.

Key observations from the reviews include the following:

- We continue to identify a number of deficiencies that recur from year to year.
- For the majority of the annually inspected audit firms, we identified fewer findings in 2020 Compared to our 2019 inspections. In our triennially inspected audit firms, some improvements were noted, although deficiencies continue to remain high.
- We also observed a number of good practices that we believe may be effective in enhancing audit quality.

The Spotlight publication is available at: <https://pcaobus.us10.list-manage.com/track/click?u=124c85b50a8374f0468d767b1&id=f2ce9d31d8&e=7401765d81>.

#### **New Board Members Sworn In**

Between November 9, 2021 and January 10, 2022, four new Board Members were sworn in:

- Christina Ho, Board Member
- Kara Stein, Board Member
- Anthony Thompson, Board Member
- Erica Williams, Chair



Upon Erica Williams' swearing in on January 10, 2022, Duane DesParte concluded his service as Acting Chairperson. He continues to serve as a Board Member.

The Board Members' full biographies are available at <https://pcaobus.org/about/the-board>.

## **HFCAA Determinations Regarding Mainland China and Hong Kong**

On December 16, 2022, the PCAOB issued a report on its determinations that the Board is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in mainland China and in Hong Kong, a Special Administrative Region of the People's Republic of China (PRC), because of positions taken by PRC authorities in those jurisdictions. The Board made these determinations pursuant to PCAOB Rule 6100, which provides a framework for how the PCAOB fulfills its responsibilities under the Holding Foreign Companies Accountable Act (HFCAA).

In the 13-month period ended September 30, 2021, 15 PCAOB-registered firms headquartered in mainland China and Hong Kong signed audit reports for 191 public companies with a combined global market capitalization (U.S. and non-U.S. exchanges) of approximately \$1.9 trillion.

The PCAOB has issued its determination report to the U.S. Securities and Exchange Commission, which also has responsibilities under the HFCAA. The appendices to the report identify the PCAOB-registered firms subject to the determinations.

The report is available at [https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/international/documents/104-hfcaa-2021-001.pdf?sfvrsn=acc3b380\\_4](https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/international/documents/104-hfcaa-2021-001.pdf?sfvrsn=acc3b380_4).

## **Updated Staff Guidance on Form AP**

On December 17, 2021, the PCAOB released targeted updates to its staff guidance on Form AP, "Auditor Reporting of Certain Audit Participants and Related Voluntary Audit Report Disclosure Under AS 3101."

In light of the COVID-19 pandemic, the updates address situations where firms may have adopted remote work arrangements for seconded employees such that they remain in their home countries during the secondment period. In addition, the guidance has been updated for certain technical matters.

The updated guidance is available at [https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/standards/documents/2021-12-17-form-ap-staff-guidance.pdf?sfvrsn=52d4323d\\_4](https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/standards/documents/2021-12-17-form-ap-staff-guidance.pdf?sfvrsn=52d4323d_4).

## **Two New Advisory Groups**

On January 31, 2022, the PCAOB announced the creation of two new advisory groups — the Investor Advisory Group (IAG) and the Standards and Emerging Issues Advisory Group (SEIAG).

The IAG will advise the PCAOB on matters concerning the PCAOB's mission to oversee the audits of public companies, and related matters (such as the audits of broker-dealers), to protect the interests of

investors and further the public interest in the preparation of informative, accurate, and independent audit reports, including providing investors' perspectives on key areas of concern and potential emerging risks related to PCAOB oversight activities.

Replacing the Standards Advisory Group created in early 2021, the SEIAG will advise the PCAOB on existing standards, proposed standards, potential new standards and, if requested by the Board, on matters other than standards that are of significance to the PCAOB, including emerging audit issues. The SEIAG will provide for enhanced public engagement with a diverse group of investors and other stakeholders.

The Board solicited public input on the frameworks for the IAG and SEIAG and invited nominations for those seeking to participate in the advisory groups. The Board expects to announce advisory group appointments in early spring and anticipates that members' terms will begin immediately.

More information about the advisory groups is available at <https://pcaobus.org/about/advisory-groups>.

### **Settled Disciplinary Orders**

The PCAOB posted several settled disciplinary orders.

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

# **AICPA Auditing Standards Board Update**

**By Greg Jenkins**

**Auburn University and Auditing Standards Board Member**

Since my last report in the fall of 2021, the ASB has continued to meet virtually. This report highlights one newly issued standard, a new exposure draft, and the status of various other projects.

## **Newly Issued Final Standard**

In March, the ASB voted to issue a final standard that amended SAS No. 122 (as amended), AU-C 210, *Terms of Engagement*. The revised requirements include inquiries related to identified or suspected fraud involving management, employees who have significant roles in internal control, or others when the fraud resulted in a material misstatement in the financial statements, and matters involving noncompliance or suspected noncompliance with laws and regulations that came to the predecessor auditor's attention during the audit, other than when matters are clearly inconsequential.

The ASB issued the final standard after the AICPA's Professional Ethics Executive Committee voted to approve proposed revisions to the Code of Professional Conduct regarding responding to noncompliance with laws and regulations.

## **Newly Issued Group Audits Exposure Draft**

In March, the ASB voted to expose a proposed Statement on Auditing Standards (SAS) and conforming amendments related to group audits. The proposed standard, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*, retains many aspects of International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* intended to strengthen the auditor's approach to planning and performing the group audit. However, unlike the IAASB's standard, the proposed SAS allows the group engagement partner to: (1) either assume responsibility for, and thus be required to be involved in, the work of component auditors, insofar as that work relates to the expression of an opinion on the group financial statements, or (2) not assume responsibility for, and accordingly make reference to, the audit of a component auditor in the auditor's report on the group financial statements. The retention of these two reporting options is consistent with the options in extant AU-C 600.

The exposure draft is available on the AICPA's [website](#). Comments are requested by June 21, 2022.

## **Ongoing ASB Projects**

Other ASB projects include those related to quality management, the audits of less complex entities, fraud, and going concern. You can find more details about these matters by visiting the [ASB Meeting Materials and Highlights](#) page on the AICPA's website.

- Quality management – The ASB is expected to issue final Quality Management standards including a Statement on Quality Management Standards: *A Firm’s System of Quality Management (SQMS 1)*, a Statement on Quality Management Standards: *Engagement Quality Reviews (SQMS 2)*, and Statement on Auditing Standards: *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*. The Quality Management Implementation task force is currently developing a host of materials to aid firms in transitioning from the current quality control standards to the new quality management standards.
- Audits of less complex entities (LCEs) – In late 2021, the ASB’s Audits of LCEs task force completed its review of the IAASB’s *Audits of Less Complex Entities* exposure draft, an analysis of how requirements in the draft compare to those in the “full-blown” International Standards on Auditing, and a survey of audit practitioners about the audits of LCEs. This work and the survey’s findings informed the ASB’s comment letter to the IAASB that was submitted to the IAASB on January 31, 2022.
- Other current IAASB projects of interest include possible revisions to ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* and ISA 570 (Revised), *Going Concern*. The ASB has formed task forces related to each of these topics and is actively monitoring the IAASB’s work in these areas.

## **Current Issues in Auditing Update**

**Denise Dickins, Ph.D., CPA, East Carolina University**  
**Keith Urtel, CPA, University of Notre Dame**

Loyal readers may recall that beginning in July 2020, we adopted several new practices aimed at achieving *CIIA*'s objective of "advancing the dialogue between academics and practitioners on current issues facing the auditing practice community." Our goals when we assumed responsibility as editors and the practices we adopted are presented below:

- Increase Engagement with Practitioners
- Increase Submissions
- Increase Readership

For each of these goals, we describe the practice adopted to achieve these goals and the results to date.

### **Increase Engagement with Practitioners**

As a means of increasing engagement with practitioners, we sought to

- Include partner-practitioners on the Editorial Board
- To the extent appropriate, have reviewers teams consist of both practitioners and academics
- Encourage research collaborations with practitioners

To date, *CIIA*'s Editorial Board now includes representatives of BDO, Crowe, EY, Deloitte, Focal Point Data Risk, Grant Thornton, KPMG, Protiviti, and PWC, and a former PCAOB Board Member.

All Practitioner Summaries of previously published research have reviewer teams that include an academic and a partner- practitioner. Dependent on the topic and complexity of the analyses, reviewer teams for many Original Research articles also include practitioners.

The results of a Call for Papers on collaborations between academics and practitioners will be published as a Special Forum in the Spring 2022 Issue. Published papers demonstrate the variety of forms collaborations can take. Two articles include practitioner co-authors, one article reports the results of semi-structured interviews of practitioners, and one article describes collaborative efforts at one university to increase diversity in accounting.

### **Increase Submissions**

As a means of increasing submissions, we sought to

- Issue Calls for Papers on topics highly relevant to practitioners
- Proactively seek out Practitioner Summaries of previously published, practitioner-relevant studies.

To date, Calls for Papers were issued in 2020 and 2022. The results of the first call, Collaborations with Practice, will be published as a Special Forum in the Spring 2022 Issue. The second call, Environmental,

Social, and Governance (ESG) Disclosures and Assurance, requests papers be submitted by March 31, 2022.

We ask a partner-level practitioner to read the titles and abstracts of many articles recently published in *AJPT*, *Horizons*, *TAR*, *JIS*, and *BRIA* to determine which are of interest to practitioners. For those deemed to be practice-relevant, we reach out to author teams and ask that they consider submitting a Practitioner Summary of their work to *CIIA*.

A record number of submissions were received in 2020, but submissions declined by 25% in 2021.

## **Increase Readership**

As a means of increasing readership, we sought to

- Provide timely publication of articles that investigate topics of interest to practitioners and report the results of rigorous analyses that are easy to understand
- Require that each submission clear a “practice relevancy” check prior to advancing to the peer review process

To date, recent Issues of *CIIA* report the results of investigations of important audit-related matters including cybersecurity, cryptocurrency, fair values, critical thinking, automation, fraud, and diversity.

The average number of days from submission to the first editorial decision is 21 days.

Desk rejects as a percentage of submissions have increased as a result of requiring “practice relevancy” checks on submissions prior to advancing to the peer review process. To encourage submissions and reduce desk rejects, we recently began offering to screen ideas for research studies and practitioner summaries. Four author-teams have taken advantage of this process.

Although we are unable to identify readers as practitioners or academics, readership of *CIIA* compares favorably to other AAA journals. For *CIIA*, the top-5 most read articles published since 2007 have combined views and downloads ranging from 4,316 to 15,127.



## **Have you Seen...?**

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

**“Man Versus Machine: Complex Estimates and Auditor Reliance on Artificial Intelligence” by Ben P. Commerford, Sean A. Dennis, Jennifer R. Joe, and Jenny W. Ulla. *Journal of Accounting Research* 60(1): 171-201.**

This study examines the effects of “algorithm aversion” amongst auditors when evaluating evidence provided by artificial intelligence (AI). In an experimental setting, auditors evaluate a complex estimate and propose an audit adjustment where the source of the audit evidence (AI versus human specialist) and the nature of the inputs to the estimate (subjective versus objective) are manipulated. Results show that auditors propose significantly smaller audit adjustments when AI is the source of the audit evidence, and this effect is larger when the inputs to the estimate are relatively more objective rather than subjective. Further, the authors find that the effect of AI evidence on auditors’ proposed audit adjustment is mediated by auditors’ increased concerns over source expertise and the perceived difficulty in convincing management to book an adjustment when AI is used. Additionally, this relationship only holds when the inputs are objective, rather than subjective. These findings are timely and add to a growing body of research that seeks to understand how to enable auditors to effectively utilize AI evidence to enhance audit quality, and suggests that algorithm aversion may unintentionally increase auditors’ acceptance of client’s biased estimates.

**“Do Foreign Component Auditors Harm Financial Reporting Quality? A Subsidiary-Level Analysis of Foreign Component Auditor Use” by William M. Docimo, Joshua L. Gunn, Chan Li, and Paul N. Michas. *Contemporary Accounting Research* 38(4): 3113-3145.**

Foreign subsidiaries of U.S. multinational companies often have statutory filing requirements in the foreign jurisdiction, and the component auditor used for the U.S. group audit is often also the statutory auditor. The authors obtain data on subsidiaries and their statutory filings from Bureau van Dijk’s Orbis database, which provides financial and ownership data for public and private companies. By linking this data to separately identified component auditors in PCAOB Form AP, the authors can compare equivalent subsidiaries with and without component auditors. The study finds that component auditor use on a foreign subsidiary is driven by the foreign subsidiary’s size and risk, amongst other determinants. Importantly, findings suggest component auditor use is associated with higher financial reporting quality on the statutory audit of subsidiaries. This provides a nuanced normative implication; while most of the prior literature finds the extent of component auditor use is associated with the lower financial reporting quality at the group audit level, this study’s findings suggest less component auditor use may damage financial reporting quality at the subsidiary level.

**“Do Investors Care Who Did the Audit? Evidence from Form AP” by Marcus M. Doxey, James G. Lawson, Thomas J. Lopez, and Quinn T. Swanquist. *Journal of Accounting Research* 59(5): 1741-1782.**

This study examines the market reaction to disclosure of audit participants in PCAOB’s Form AP. In Form AP, auditors are required to disclose the identity of the audit partner and other accounting firms (i.e., component auditors) that took part in the audit. Since the PCAOB’s objective in requiring the disclosure was to provide investors with meaningful information, a significant market response to this information

might be expected. However, findings suggest little evidence of a significant investor response (measured with trading volume, absolute abnormal returns, and bid-ask spreads) following disclosure of the audit partner identity or component auditor use. Surprisingly, there is no significant investor response even when partners switch, when partners are associated with restatements, and when component auditors are associated with PCAOB deficiencies. Taken together, the authors find little evidence that investors in the U.S. significantly respond to the disclosure of audit partner identities or component audit use.

**“Group Recruiting Events and Gender Stereotypes in Employee Selection” by Kristin Fanning, Jeffery Williams, and Michael G. Williamson. *Contemporary Accounting Research* 38(4): 2496-2520.**

Across three studies, this paper finds that the use of group recruiting events leads to gender bias in employee selection. Given the prominence of group recruiting events for accounting firms on college campuses, the study examines how gender stereotypes and social norms influence the hiring decisions when using group-based interviews compared to one-on-one interviews. Study one provides support for the theory that gender stereotypes and violations of social norms in a group setting influence hiring decisions. In study two, results show that violation of gender stereotypes affect hiring decisions more in a group setting than in a one-on-one interview setting. Specifically, when females engage in self-promoting (typically male) behaviors, they receive lower ratings than their male counterparts. Finally, in study three, the authors find further support that when a female job candidate is self-promoting in a group or social setting, they are rated lower than when the same self-promoting behaviors occur in a one-on-one setting. These findings reveal an unintended consequence of group recruiting events, where gender stereotypes can bias evaluations of job candidates in this event setting.

**‘The Impact of Risk and the Potential for Loss on Managers’ Demand for Audit Quality’ by Patrick J. Hurley, Brian W. Mayhew, Kara M. Obermire, and Amy C. Tegeler. *Contemporary Accounting Research* 38(4): 2795-2823.**

Using experimental economics, this paper investigates the role of risk, potential for loss, and their interaction, on managers’ demand for high audit quality. The use of an experimental economics setting allows the authors to isolate earnings risk and the potential for loss from other interrelated factors that would be inextricable in other settings. The authors predict that managers’ risk aversion and loss aversion will influence their demand for audit quality. Path analysis shows that when managers have higher variability in earnings outcomes (higher risk) and higher potential for loss, they demand lower audit quality to have more reporting flexibility, which in turn increases their misreporting behavior.

**‘Is There a Brain Drain in Auditing? The Determinants and Consequences of Auditors Leaving Public Accounting’ by W. Robert Knechel, Juan Mao, Baolei Qi, and Zili Zhuang. *Contemporary Accounting Research* 38(4): 2461-2495.**

This study investigates the determinants and consequences of auditors leaving public accounting for alternative careers. Understanding this loss of talent is important because human capital is the most critical asset in the audit profession. Importantly, the authors distinguish between departures from the profession and departures to different firms within the profession (auditor turnover), which has been studied by prior literature. The authors use data on Chinese signing auditors (which can include partners and managers) as their identities have been disclosed much longer than in the U.S. Amongst other determinants, results show that auditors who generate significant revenue, deliver high audit quality, and work at larger firms are less likely to leave the profession, and that auditors who lose clients or serve low-quality clients are more likely to leave. These associations are consistent with low-quality

auditors leaving the profession. Further, clients are more likely to switch audit firms or pay a lower audit fee when their auditor departs, but audit quality does not change. While less common, if the departing auditor is highly skilled and takes a high-visibility corporate position, audit quality does decline. So, this type of auditor departure may represent the most critical “brain drain” for the profession.

**“One Team or Two? Investigating Relationship Quality between Auditors and IT Specialists: Implications for Audit Team Identity and the Audit Process.” By Tim Bauer and Cassandra Estep. *Contemporary Accounting Research* 36 (4): 2142-2177.**

This paper examines how auditors and IT specialists perceive their working relationship and how coordination and communication is affected when the relationship is good versus difficult. Drawing on social identity theory, the authors interview 16 auditors and 17 IT specialists about an audit engagement where there was a good working relationship with the other service line and one where the relationship was difficult. They find that both auditors and IT specialists claim to have a one-team view, but that the other service line does not retain that view. Building on this, the difficult working relationships are driven by a “two-team mentality” and lack of communication or superficial communication between the two service lines. This holds important audit quality implications, as these types of engagements note limited IT specialist involvement in planning or that auditors did not seek input or ignored input from IT specialists. The good working relationships between auditors and IT specialists are more collaborative, with frequent communication and mutual respect between service lines that helps audits run more smoothly. These results contribute to the literature and theory by showing the complexities of audit teams involving multiple service lines.

**“The Geographic Decentralization of Audit Firms and Audit Quality.” By Matthew Beck, Joshua Gunn, and Nicholas Hallman. *Journal of Accounting and Economics* 68 (1): in-press.**

This study builds on prior research on audit firms as networks of offices (i.e., geographically decentralized offices). The largest offices have substantially greater resources and expertise, and proximity may allow them to share those resources with (relatively) nearby smaller offices. The regional managing partner in one of the largest offices may also have oversight duties over nearby smaller offices. Consistent with resource-sharing and increased monitoring, the authors find that small office proximity to a large office is associated with higher audit quality. The authors suggest that physical proximity allows for audit quality “spillovers” that are driven primarily by increased monitoring and knowledge sharing. An interesting placebo test further suggests that their findings are not driven merely by proximity to a major metropolitan area, it is more specifically a function of small office proximity to a large office in their firm.

**“Does the Timing of Auditor Changes Affect Audit Quality? Evidence from the Initial Year of the Audit Engagement.” By Cory Cassell, James Hansen, Linda Myers, and Timothy Seidel. *Journal of Accounting Auditing and Finance* 35 (2): in-press.**

The authors focus on the first year of an auditor-client relationship and investigate whether timing of the new auditor’s appointment is associated with variation in audit quality. This study considers whether a “more frantic” initial audit engagement (i.e., commences during the fourth quarter of the fiscal year) versus an initial audit engagement that commences prior to the end of the third quarter is associated with lower audit quality. The authors suggest that engagements that start in the fourth quarter require navigating the “audit learning curve” of a new client engagement more quickly (e.g., developing an understanding of the client, making risk assessments) and likely precludes interim testing. The authors find that later initial client engagements are associated with lower audit quality, relative to both earlier initial client engagements and ongoing client engagements. Further, these results are more pronounced for more complex late initial engagements.

**“Disclosure Overload? A Professional User Perspective on the Usefulness of General Purpose Financial Statements.” By Michael Drake, Jeffrey Hales, and Lynn Rees. *Contemporary Accounting Research* 36 (4): 1935-1965.**

Given the concerns about disclosure overload in financial statements, this study surveys 369 professional users of financial statements (e.g., analysts) about their perceptions of disclosure overload and the usefulness of financial statements, particularly the footnotes. They find that approximately 21 percent of the users believe disclosure overload is a significant problem, while 44 percent believe more information should be disclosed. Interestingly, despite the larger proportion of users wanting more information, the results suggest that a significant portion of the financial statements are ignored. The authors conclude that this is consistent with general purpose financial statements, where the information presented may be useful to different types of users. Lastly, most participants (61 percent) believe the footnotes are useful in performing their job, suggesting these disclosures provide value in their decision-making processes. These results provide insights for financial statement preparers and auditors, standard setters, and the academy about the usefulness of the financial statements.

**“Employee Movements from Audit Firms to Audit Clients.” By Andrew Finley, Mindy Kim, Phillip Lamoreaux, and Clive Lennox. *Contemporary Accounting Research* 36 (4): 1999-2034.**

The authors reconsider the auditor alumni phenomenon. First, they find that indirect moves from audit firm to audit client (in which a 3<sup>rd</sup> entity employs the employee in-between employment at the auditor and the audit client) are more common than direct moves (auditor to audit client). In survey data, audit partners indicate that they are commonly asked by clients to advise on accounting and finance executive selection, and that alumni often inform partners that they are seeking new employment opportunities. Archival data suggests that while direct hire of alumni occurs in excess of expectation (56 percent vs. 26 percent), indirect hire of alumni also occurs in excess of expectation (30 percent vs. 23.5 percent). In addition, audit alumni hired into executive positions (both direct and indirect) turnover less, and are associated with lower audit firm turnover. These results broadly support an important networking role for audit partners and potential benefits to the audit alumni phenomenon for companies and auditors.

**“It Goes Without Saying: The Effects of Intrinsic Motivation Orientation, Leadership Emphasis on Intrinsic Goals, and Audit Issue Ambiguity on Speaking Up.” By Kathryn Kadous, Chad Proell, Jay Rich, and Yuepin Zhou. *Contemporary Accounting Research* 36 (4): 2113-2141.**

This paper uses a series of studies to investigate how audit leaders’ motivational emphasis and the ambiguity of a potential audit issue affect auditors’ willingness to “speak up”. First, the authors conduct two studies, an experiment with masters of accountancy students (Study 1) and a survey with auditors from two large public accounting firms (Study 2), and find in both studies that auditors with an intrinsic motivational orientation are more willing to raise potential audit issues than those with an extrinsic motivational orientation. In a third study, the authors vary motivational orientation and issue ambiguity in an experiment with 117 staff auditors. They find that auditors are more likely to speak up to leaders who stress intrinsic versus extrinsic goals, regardless of the ambiguity of the audit issue. Study 4 tests the robustness of measures used in Study 3 and replicates the result of Study 3 with masters of accountancy students. Study 5 provides additional evidence in an experiment with masters of accountancy students that audit leaders’ emphasis on intrinsic goals prompts students to develop their own intrinsic motivation for their work. Together, these results contribute to the literature and to practice regarding the importance of leaders’ “tone at the top” and show that when leaders emphasize intrinsic goals, it can help

orient auditors toward their own intrinsic motivation and increase auditors' willingness to "speak up" and communicate audit issues to their supervisors.



## **Have You Seen...These Educational Resources?**

**By Penelope Bagley and Chad Simon  
Appalachian State University and Utah State University**

**“How Will Blockchain Technology Impact Auditing and Accounting: Permissionless versus Permissioned Blockchain.” By Manlu Liu, Kean Wu and Jennifer Jie Xu. *Current Issues in Auditing* 13 (2): A19-A29.**

In this article, the authors provide some background material on blockchain and discuss two different types of blockchain (“permissionless” and “permissioned”) and features of each type. They also discuss both the challenges of a company deciding to use blockchain, as well as some insights regarding the impact of blockchain on the audit (presented in an opportunities vs. challenges format). Finally, they make recommendations about how auditors can effectively engage in blockchain-related work.

**“Wrecks All Drug Company” By Kyleen Prewett, Tammie Schaefer, and Don Wengler. *Issues in Accounting Education* 34 (4): 31-38.**

The authors provide a hands-on case that allows students to explore a large data set as part of a hypothetical fraud investigation. The case allows students to work on tasks such as hypothesis generation for an identified issue, identification of individuals to interview, examination of data to test hypotheses, etc.

**“Integrating technology and data analytic skills into the accounting curriculum: Accounting department leaders’ experiences and insights” By Lindsay Andiola, Erin Masters, and Carolyn Norman. *Journal of Accounting Education* 50: 1-18.**

In this article, the authors present survey results of leaders of AACSB accredited accounting departments regarding their experiences integrating technology into their curriculum in an effort to meet AACSB Standard A5, which requires the integration of technology and data analytic skills into the curricula. The results and insights gathered from the survey results can provide useful guidance to accounting departments and business schools in implementing technology and data analytics into their own curriculum.