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Report of the President

By Allen Blay



It's hard to believe the spring semester is wrapping up and we are moving into summer. If your spring was anything like our spring at Florida State University, we found more students struggling with their final accounting courses than ever before. Historically, we do not have many students unable to pass the third intermediate financial, but this year was unlike any other. I spoke with many of these students in my role as department chair, and the students were all "COVID kids", ones who took their principles of financial and intermediate 1 courses remotely. Several admitted that they did not put in much effort or engage in much learning in those courses – cheating was rampant when we were all thrown rapidly into a remote environment. These were difficult conversations, but the students seem resolved to push on and finish the degree this summer. The conversation of how many different schemes and how much effort students put in to avoid doing work and learning is one I've had with several of our best students also. This leads well into a topic that many of us have been thinking about over the past several months.

ChatGPT

David Wood and several hundred others recently published a study in *Issues in Accounting Education* documenting the performance of the ChatGPT AI bot on accounting exams. Although the bots did not perform well, they performed relatively better on Auditing and AIS assessments compared with Financial, Managerial, and Tax. Nonetheless, I think most of us have thought about how this rapidly improving technology will affect our ability to give out of class assignments. I am not as worried about it because if the technology is great, it can serve as an assistant to auditors in practice. So perhaps we may want to consider how AI technology can serve as a good practice aid and consider how we can teach our students to use it to their benefit. Regardless, continuing the conversation about the role of ChatGPT in auditing education and practice is important, and I look forward to hearing everyone's thoughts at upcoming meetings. Speaking of which...

Annual Meeting 2023

The 2023 Annual Meeting is looking like it is going to be very well-attended. Eric Condie, Christine Gimbar, Roy Schmardebeck, and Tim Seidel are putting together an outstanding program. I'm already excited about our section lunch and the outstanding set of concurrent sessions and panels that our section will be hosting. Jennifer Joe will officially become President of the section at this meeting, so be sure to congratulate her. If you are in Denver for the meeting, please say hi.

2024 Midyear Meeting

If you haven't heard the news, the 2024 Auditing Section Midyear Meeting will be held at the Marriott in New Orleans, LA. Josh Gunn, Lauren Reid, Andrew Trotman and Ally Zimmerman are currently planning the meeting, and I expect that it will be a hit with section members. I still remember the last time we went to New Orleans in 2013 - vaguely – it was a lot of fun. We also held our meeting there in 2005, so we are keeping up our "once a decade" tradition. Put the dates of 1/11-1/14/24 on your calendar now, and expect a call for papers out soon!

SVB and the Role of Auditors

It seems like any time we take a second to breathe, something else comes up in the profession that makes us rethink our roles. Silicon Valley Bank failed in March when depositors withdrew \$42 billion in a matter of days. The failure occurred within weeks of the bank receiving an unqualified audit opinion. This situation brings up many interesting issues that we can debate with our students and amongst ourselves. What is the role of auditors in predicting the future? This and other recent bank failures were not related to what is usually considered the most risky asset – loans. The decline in value and run on the bank was related to interest rate issues with what could historically be considered low risk assets. Of course, regulators are now reconsidering those definitions, and auditors are being criticized in the press for issuing an opinion without any going-concern uncertainty. As always, it's an interesting time to be an auditor.

CPA Exam Changes and Conditional Credit

With the CPA exam changing in 2024, the NASBA recently announced a rule change (if adopted in the 55 jurisdictions) extending the time for conditional credit on the CPA from 18 months to 30 months. I like this rule because I've seen more than one student rush to take a part (and fail) because of perceived pressure from the 18 month rule. Overall, our master of accounting students self-reported taking and passing fewer parts than ever in 2021-22. We believe that this is another side effect of remote COVID learning – they just were struggling to adjust workloads that they hadn't experienced as an upper division accounting student. This year appears to be much better. More of our students are reporting taking and passing parts of the exam, and my take on their overall "moods" is that they are happier and more positive than they have been in the past two years. I'd be curious to hear from any of you what you are seeing at your university.

Enrollments and Demand for Auditors

In the fall, I asked for any suggestions I could share on what your programs are doing to curb enrollment declines. I got some excellent suggestions and we are trying to implement some of them. Things that have worked at other universities: more in-seat classes for principles of financial reporting, putting the absolute best instructors into the principles courses, engaging successful young and 'experienced' alumni as video/in-person guests in the classroom. We tried a couple of these this year, especially in the spring. We tried out a small, dedicated honors section with one of our most loved teachers and by the end of the semester eight of the 15 students listed their major as accounting, up from two at the beginning of the semester. Our amazing principles of managerial instructor put in a feature called "Myth Busters" that some of our young alumni came up with. It featured profiles of our alumni and what they *really* do in auditing and accounting – it isn't Quickbooks! I'd love to hear more ideas.

I want to thank all of you for your support this year. I have always thought our section is the best and this year has proven it. The number of times I've asked for help is very big and the number of times anyone said no is almost zero. This section is alive, supportive, and doing great things. I'm excited for the future of auditing education and research!

Sincerely,

Allen

Awards Presented at 2023 Auditing Section Midyear Conference

Audit Midyear Meeting Best Behavioral Paper
Lauren Cunningham, Sarah Stein, Kimberly Walker, Karneisha Wolfe

(From Left: Lauren Cunningham, Karneisha Wolfe, Sarah Stein, Kimberly Walker, Allen Blay)
(From Left (back row)): Ally Zimmerman, Andrew Trotman, Lauren Reid, Josh Gunn)



**Audit Midyear Meeting Best Archival Paper
Nina Xu and Wei Zhang**

*(From Left: Nina Xu, Wei Zhang, Ally Zimmerman, Andrew Trotman,
Lauren Reid, Josh Gunn, Alley Blay)*



**Audit Midyear Meeting Best Phd Student Paper
Meiling Zhao**

*(From Left: Meiling Zhao, Ally Zimmerman, Andrew Trotman,
Lauren Reid, Josh Gunn, Allen Blay)*



**Outstanding Auditing Dissertation and Dissertation Chair
Linnette Rousseau and Karla Zehms**

*(From Left: Allen Blay, Linnette Rousseau, Presenter Emily Griffith;
Karla Zehms unavailable for photograph)*



**Notable Contribution to the Auditing Literature
Miguel Minutti-Meza**

(From Left: Presenter Tina Carpenter, Allen Blay, Miguel Minutti-Meza)



Distinguished Service Kathryn Kadous

(From Left: Allen Blay, Kathryn Kadous, Presenter Margot Cella)



**Outstanding Educator
Urton Anderson**

(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 2022 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Meeting of PCAOB Standards and Emerging Issues Advisory Group (SEIAG)
- PCOAB Proposes New Quality Control Standard
- PCAOB Approves Five-Year Strategic Plan and 2023 Budget
- PCAOB Launches Technology Innovation Alliance Working Group
- Report Analyzing the Impact of Critical Audit Matters Requirements on Investors and Other Key Stakeholders
- Report Analyzing the Impact of Estimates and Specialists Requirements on Key Stakeholders
- Staff Update and Preview of 2021 Inspection Observations
- PCAOB Secures Complete Access to Inspect and Investigate Chinese Firms
- PCAOB Proposes New Standard for the Auditor's Use of Confirmation
- Additional Insights on the Remediation Process
- PCAOB Investor Advocate Urges Caution with Third-Party Verification/Proof of Reserve Reports
- Meeting of PCAOB Investor Advisory Group (IAG)
- Settled Disciplinary Orders

Meeting of PCAOB Standards and Emerging Issues Advisory Group (SEIAG)

On November 2, 2022, the PCAOB held a virtual meeting of the SEIAG. Agenda topics included:

- Update on PCAOB developments;
- Standard-setting update;
- Office of Economic and Risk Analysis overview;
- Firm and engagement performance metrics; and
- Fraud considerations.

The recording and related materials for the meeting are available at

<https://pcaobus.org/news-events/events/event-details/pcaob-standards-and-emerging-issues-advisory-group-meeting-2022>.

PCOAB Proposes New Quality Control Standard

On November 18, 2022, the PCAOB issued for public comment a proposed standard that the Board believes would, if adopted, lead registered public accounting firms to significantly improve their quality control (QC) systems. The period for public comment on the proposal ended on February 1, 2023.

The proposed standard, if adopted, would replace the current QC standards in their entirety and would provide a framework for a firm's QC system that is grounded in proactively identifying and managing risks to quality, with a feedback loop from ongoing monitoring and remediation designed to drive continuous improvement. Among other provisions, the proposal would foster a more structured approach where a firm would annually evaluate its QC system and report the results of its evaluation on new Form QC.

The proposal, comment letters received, and supplemental materials are available at <https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-046-quality-control>.

PCAOB Approves Five-Year Strategic Plan and 2023 Budget

On November 18, 2022, the PCAOB approved its 2022-2026 strategic plan and fiscal year 2023 budget. Informed by robust input from key stakeholders on the PCAOB's advisory groups, the PCAOB's staff, and the broader public through a comment solicitation process, the PCAOB's strategic plan is built around four central goals to help the PCAOB fulfill its investor-protection mission:

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

The 2023 budget is guided by the strategic plan and provides the Board with the resources necessary to execute its goals to help keep investors protected.

The strategic plan and budget documents are available at <https://pcaobus.org/about/strategic-plan-budget>.

PCAOB Launches Technology Innovation Alliance Working Group

On November 30, 2022, the PCAOB announced the formation of the Technology Innovation Alliance (TIA) Working Group, a group of external professionals with expertise in emerging technologies, including such technologies used by financial statement preparers and auditors.

Chaired by Board Member Christina Ho, the TIA Working Group serves two primary functions:

- Advising the Board on the use of emerging technologies by auditors and preparers relevant to audits and their potential impact on audit quality; and
- Making recommendations to the Board regarding how the Board's existing or future oversight programs might address the use of emerging technologies by auditors and preparers.

The names and biographies of the TIA Working Group members are available at <https://pcaobus.org/about/working-groups-task-forces/technology-innovation-alliance-working-group>.

Report Analyzing the Impact of CAMs Requirements on Investors and Other Key Stakeholders

On December 7, 2022, the PCAOB released a second interim post-implementation review report (Interim Analysis Report) addressing the impact of the critical audit matters (CAMs) requirements adopted in 2017.

As described in the Interim Analysis Report, the PCAOB finds that the average number of CAMs per audit report has declined over time. The report also notes that investor awareness and use of CAMs continues to develop. For example, some investors indicated that they are using CAMs to identify key financial reporting risks. In addition, based on PCAOB staff analysis, evidence of significant unintended consequences from auditors' implementation of the CAM requirements has not been identified.

The PCAOB plans to continue to monitor the implementation of CAM requirements and evaluate the timeline for developing a more comprehensive post-implementation review. Because the effects of the CAM requirements may take several years to fully manifest or stabilize, the PCAOB does not anticipate publishing the next analysis until after 2023.

The Interim Analysis Report and accompanying staff white papers providing additional technical information are available at <https://pcaobus.org/oversight/standards/pir/post-implementation-review-as-3101-auditors-report-audit-financial-statements-when-auditor-expresses-unqualified-opinion>.

Report Analyzing the Impact of Estimates and Specialists Requirements on Key Stakeholders

On December 8, 2022, the PCAOB released an interim post-implementation review report (Interim Analysis Report) addressing the initial impact of requirements, adopted in 2018, related to auditing accounting estimates and the auditor's use of the work of specialists.

The staff findings suggest that the new requirements improved auditing practices in some instances and did not result in significant increases in audit hours or audit fees. There is also no evidence of unintended consequences from auditors' initial implementation of the new requirements. The Board plans to continue to monitor the implementation of the new requirements and their impact on the quality of audit services, as well as on audit committees, preparers, and audit firms.

The Interim Analysis Report and accompanying staff white papers providing additional technical information are available at <https://pcaobus.org/oversight/standards/pir/post-implementation-review-as2501-auditing-accounting-estimates-fair-value-measurements-auditors-use-work-specialists>.

Staff Update and Preview of 2021 Inspection Observations

On December 8, 2022, the PCAOB released the Spotlight "Staff Update and Preview of 2021 Inspection Observations." The report presents aggregate observations from the PCAOB's inspections of 141 annually and triennially inspected audit firms in 2021 and shows a year-over-year increase in the number of audits with deficiencies at audit firms that the PCAOB inspected in 2021.

According to the report, PCAOB staff expects:

- Approximately 33% of the audits reviewed will have one or more deficiencies that will be discussed in Part I.A of the individual audit firm's inspection reports, up from 29% in 2020; and
- Approximately 40% of the audits reviewed will have one or more deficiencies discussed in Part I.B of the individual firm's inspection reports, up from 26% in 2020.

PCAOB staff also observed, and described in the report, good practices that may be effective in enhancing audit firms' systems of quality control and audit quality generally.

The Spotlight is available at

https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/staff-preview-2021-inspection-observations-spotlight.pdf?sfvrsn=d2590627_4.

PCAOB Secures Complete Access to Inspect and Investigate Chinese Firms

On December 15, 2022, the PCAOB announced that the Board was able to secure complete access to inspect and investigate audit firms in the People's Republic of China for the first time in history. Therefore, on December 15, 2022, the PCAOB Board voted to vacate previous determinations to the contrary.

The Board's determination report is available at

https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/international/documents/2022-hfcaa-determination-report.pdf?sfvrsn=1345a530_2

and a fact sheet on the Board's determination is available at

<https://pcaobus.org/news-events/news-releases/news-release-detail/fact-sheet-pcaob-secures-complete-access-to-inspect-investigate-chinese-firms-for-first-time-in-history>.

PCAOB Proposes New Standard for the Auditor's Use of Confirmation

On December 20, 2022, the PCAOB issued for public comment a proposed new standard that, if adopted, would strengthen and modernize the requirements for the auditor's use of confirmation. The period for public comment on the proposal ended on February 20, 2023.

To modernize the PCAOB's confirmation standard, the proposed standard includes principles-based requirements that would apply to all methods of confirmation, including paper-based and electronic communications. The proposal, if adopted, would better integrate the PCAOB's confirmation standard with its risk assessment standards.

The proposal, comment letters received, and supplemental materials are available at

<https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-028-proposed-auditing-standard-related-to-confirmation>.

Additional Insights on the Remediation Process

On February 2, 2023, the PCAOB released the Spotlight "Additional Insights on the Remediation Process." This staff report highlights some of the factors that the staff considers, particularly related to design, implementation, and effectiveness of a firm's actions to remediate quality control deficiencies. Key considerations discussed include heightened expectations for addressing repeat or persistent quality control deficiencies, the importance of root cause analysis, how the PCAOB staff considers subsequent inspection results, PCAOB staff expectations on the timing of remediation design and implementation, and more.

The Spotlight is available at

https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/remediation-spotlight.pdf?sfvrsn=2ae461df_3.

PCAOB Investor Advocate Urges Caution With Third-Party Proof of Reserve Reports

On March 8, 2023, the PCAOB Investor Advocate issued the Investor Advisory "Exercise Caution With Third-Party Verification/Proof of Reserve Reports."

The Investor Advisory notes that the Office of the Investor Advocate is aware of some service providers, including PCAOB-registered audit firms, issuing proof of reserve reports ("PoR Reports") to certain crypto entities (e.g., crypto exchanges, stablecoin issuers). The Office of the Investor Advocate is issuing this Investor Advisory because of concerns that investors and others may place undue reliance on PoR Reports, which are not within the PCAOB's oversight authority. Importantly, investors should note that PoR engagements are not audits and, consequently, the related reports do not provide any meaningful assurance to investors or the public.

The Investor Advisory is available at

<https://pcaobus.org/resources/information-for-investors/investor-advisories/investor-advisory-exercise-caution-with-third-party-verification-proof-of-reserve-reports>.

Meeting of PCAOB Investor Advisory Group (IAG)

On March 9, 2023, the PCAOB held a virtual meeting of the IAG. Agenda topics included:

- PCAOB standard-setting update;
- IAG Subcommittee on Standards Briefing to the PCAOB – "Fraud";
- IAG Subcommittee on Emerging Issues Briefing to the PCAOB – "Opportunities and Challenges of Auditing Digital Assets"; and
- IAG Subcommittee on Inspections and Data Transparency Briefing to the PCAOB – "Format and Content for Investors."

The recording and related materials for the meeting are available at

<https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-2023>.

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, the ASB has issued a new standard on group audits and continued work on a variety of other standard-setting projects. This report highlights the newly issued standard and the status of various other projects.

Newly Issued Final Standard

At its January 2023 meeting, the ASB voted to issue Statement on Auditing Standards No. 149, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to-Auditors)* as a final standard. This standard supersedes SAS No. 122, *Statement on Auditing Standards: Clarification and Recodification, as amended, section 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (AU-C 600).

Several noteworthy changes in the newly issued standard include the following:

- A risk-based approach to planning and performing a group audit. Extant AU-C section 600 focused on the identification of significant components at which to perform audit work. SAS No. 149, directs the group auditor to use professional judgment in determining the components at which to perform procedures that respond to assessed risks.

There is no longer a requirement for the group auditor to identify significant components and to audit those components. Instead, the group auditor determines an appropriate approach to obtain sufficient appropriate audit evidence to respond to assessed risks of material misstatement of the group financial statements, which may, and often will, involve audit procedures being performed at the component level.

- Define group financial statements as financial statements that include the financial information of more than one entity or business unit through a consolidation process. The phrase “through a consolidation process” was added to the definition of group financial statements because a consolidation process is an integral part of the preparation of group financial statements.
- Two reporting options are available to the group auditor in extant AU-C section 600. These are “assuming responsibility for the work of component auditors” and “making reference to the audit of a component auditor.” In the newly issued standard, the “assuming responsibility” option is referred to as “being involved in the work of component auditors” or “when component auditors are involved” and the “making reference” option is unchanged.
- The definition of *component auditor* has been revised to indicate that a component auditor is part of the engagement team. This change was necessitated by the newly issued quality management standards (see SAS No. 146) which revised the definition of the term *engagement team* to include component auditors. This change is intended to improve audit quality by making the group

engagement partner responsible for the direction and supervision of component auditors and the review of their work.

You can access the newly issued [SAS No. 149](#) on the AICPA's website.

Ongoing ASB Projects

The ASB has a relatively large number of active projects. Some of these projects may lead to revisions to extant standards involving audit evidence, fraud and going concern, while others related to attestation standards and the audits of less complex entities may result in a new standard or other authoritative or non-authoritative guidance. The ASB is also pursuing two projects that relate more pervasively to the audit environment: the definition of public interest entities and technology.

You can find more details about these projects by visiting the [ASB Meeting Materials and Highlights](#) page on the AICPA's website. Much of the ASB's current work on these ongoing projects involves liaising with appropriate IAASB task forces and conducting outreach activities with various stakeholders in the financial reporting ecosystem.

Current Issues in Auditing Update

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

Our tenure as Co-editors of *CIIA* is coming to an end. Luckily, *CIIA*'s faithful readers and contributors are in good hands with incoming Co-editors Dr. Nicole Wright and Mr. Steven Davis.

Dr. Nicole Wright is an Associate Professor at James Madison University. She received her PhD from Virginia Tech and was a member of the faculty at Northeastern University prior to joining James Madison in 2017. Nicole's research on the audit process has been published in many academic journals, including *The Accounting Review*, *Contemporary Accounting Research*, *Auditing: A Journal of Practice & Theory*, and *CIIA*. She has extensive experience as a reviewer for many academic journals and conferences and has won numerous awards for her teaching and research.

Mr. Steven Davis is an audit partner in the Miami office of EY. He has 27 years of experience in public accounting. Steve serves both SEC and private audit clients. He received his bachelor's in accounting and master's in business administration from Florida International University. In addition to his professional experience, for the past three years Steve has served on the editorial board of, and has been a reviewer for, *CIIA*.

When we began our journey nearly three years ago, we had three goals: increase practice engagement, increase readership, and increase submissions. We believe we have been successful in increasing practice engagement and readership. *CIIA*'s editorial board now includes 11 partner-level auditing practitioners who serve as both reviewers for Practitioner Summary submissions and help disseminate published papers to their practitioner colleagues.

Strong ties with practitioners benefit academics by increasing the validity, practice-relevance, and influence of our research. Strong ties also benefit practitioners who may gain knowledge from academic studies that helps them be more effective and efficient performing their work or managing their businesses. As part of increasing practice engagement, the AAA and Institute of Internal Auditors have, in principle, agreed to collaborate on publishing a Special Section in *CIIA*. In an upcoming Call for Papers, we will ask internal auditors interested in collaborating with academics on IA-related research to contact us. Collaboration can take a myriad of forms from idea generation, to agreeing to be a participant, to co-authoring. If you are interested in working with the internal auditors who (hopefully) reach out to us, please send an email to dickinsd@ecu.edu. We will provide introductions.

Unfortunately, we did not achieve our goal of increasing submissions. In 2019, there were 42 new submissions, and in 2022, there were 41 new submissions. However, we have published original research on some of the most urgent auditing topics including ESG, cybersecurity, cryptocurrency, audit automation, and fraud. We are also hopeful that our Calls for Papers on SOC Services and Internal Audit will simulate additional submissions of rigorously conducted practice-relevant research.

We are grateful to the members of *CIIA*'s editorial board for their support during our tenure as Co-editors, the academics and practitioners who gave us the honor of reviewing their research, *CIIA*'s loyal readers, and managing editor David Twiddy for his guidance and patience. And...We look forward to *CIIA*'s continued success under Nicole and Steve's leadership.

Denise and Keith

Have you Seen...?

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

“The Importance of Clarification of Auditors’ Responsibilities under the New Audit Reporting Standards.” By Ann G. Backof, Kendall Bowlin, and Brian M. Goodson. *Contemporary Accounting Research* 39 (4): 2284–2304.

This study evaluates the effect of “reasonable assurance” clarifications on jurors’ assessments of auditor negligence. Auditors are responsible for providing reasonable, not absolute, assurance that the financial statements are free from material misstatements; however, there is variation across auditing standards in clarifying what reasonable assurance means. Using an experiment, the authors find that clarifying the term “reasonable assurance” mitigates jurors’ assessments of auditor negligence. In contrast, when clarifying language is not used, auditor negligence assessments are higher, and the effect is stronger when auditors include a CAM disclosure. Additional analysis finds that the use of clarifying language reduces jurors’ perceptions of auditors’ control over misstatements. Together, results suggest that the current auditing environment under PCAOB auditing standards leads to heightened perceptions of auditor responsibility that may not be consistent with the auditors’ reasonable assurance expectation.

“Do Audit Teams Affect Audit Production and Quality? Evidence from Audit Teams’ Industry Knowledge.” By Steven F. Cahan, Limei Che, W. Robert Knechel, and Tobias Svanstrom. *Contemporary Accounting Research* 39 (4): 2657-2695.

This study uses proprietary data from Sweden on audit team members’ audit hours to examine industry knowledge within audit teams. Analysis at the audit team level is important since the audit is a collective outcome and researchers can typically only observe characteristics of team leadership (e.g., audit firm, audit office, or audit partner characteristics). To measure industry knowledge at the team member level, the authors use a portfolio-based measure of the proportion of audit hours the individual spends on the industry’s clients relative to all other individuals in the sample working in that industry. The study finds that audit teams with higher average industry knowledge are associated with higher audit hours, and on a limited basis higher audit quality. This finding demonstrates that individuals beyond the audit partner influence audit outcomes and confirms the importance of studying audit teams when data is available.

“The Costs of Waiving Audit Adjustments.” By Preeti Choudhary, Kenneth Merkley, and Katherine Schipper. *Journal of Accounting Research* 60 (5): 1813-1857.

This study focuses on how managers handle auditor-proposed adjustments and the impact on reporting reliability and the audit process. Specifically, after conducting their audit work, auditors present client management with proposed adjustments and management can ultimately accept (record/agree) or waive (not record/disagree) auditor-proposed adjustments. These proposals and decisions are not

publicly observable, but the authors' access to proprietary PCAOB data on audit adjustments proposed by the eight largest U.S. firms enables the important analysis. Descriptive statistics show that management most commonly chooses to waive adjustments, and empirical results demonstrate that waiving adjustments is associated with lower financial reporting quality. Further, auditors respond to the increased risk associated with management waiving their adjustments by making changes to the next period's audit process (effort, fees, and proposed adjustments). Overall, the study provides important insights into the audit adjustment process.

“Walking the Talk? Managing Errors in the Audit Profession.” By Anna Gold, Dominic Detzen, Oscar Van Mourik, Philip Wallage, and Arnold Wright. *Contemporary Accounting Research* 39(4): 2696–2729.

This paper reports the findings of semi-structured interviews with 22 audit professionals about their experiences in managing auditor errors. Auditors discuss the dichotomy of the negative aspects of being associated with an auditor error but also the opportunity to learn from past errors. The authors find that while auditors express a desire to openly discuss and learn from errors, they tend to engage in defensive strategies to cover up or defend their actions. A combination of regulatory pressures, firm attitudes toward error prevention, and individual auditor perceptions of error association creates a culture of error “avoidance”. In turn, auditors engage in defensive coping mechanisms which limits their ability to learn from errors. Findings suggest firms' commitment to learning from errors is more symbolic than substantive.

“Audit Implications of non-GAAP Reporting.” By Nicholas J. Hallman, Jaime J. Schmidt, and Anne M. Thompson. *Journal of Accounting Research* 60 (5): 1947-1989.

Leveraging data primarily from the U.K., this study explores how non-GAAP reporting affects the audit process and its outcomes. While prior literature has focused on whether *investors* use non-GAAP reporting, this is the first study to investigate whether *auditors* rely on this information. Findings suggest that auditors use non-GAAP profit before tax when determining quantitative materiality for the audit. This unique finding is enabled by the recent U.K. audit regulation to disclose quantitative materiality, which has generally not been explored in the audit literature. Surveys of U.S. audit partners confirm that non-GAAP reliance is a common practice in the U.S. as well. Additional tests explore when and why U.K. auditors rely on non-GAAP benchmarks, which ultimately allows the authors to conclude that non-GAAP reporting can affect the quality of the audit process and resulting audited financial statements.

“How Better Client Service Performance Affects Auditors' Willingness to Challenge Management's Preferred Accounting.” By Michael A. Ricci. *Accounting, Organizations and Society* 103: 101377.

Auditors are tasked with providing excellent client service as well as performing a high-quality audit; however, these activities often work in opposition to each other. This paper examines whether and how client service behaviors influence audit quality. Psychology theory on goal pursuit suggests that differential framing of client service goals can either improve or impair auditor judgment quality. Across three studies, the author finds that when client service is viewed through a commitment framing lens, auditors who are perceived as better client service performers are less willing to challenge management than worse client service performers. However, progress framing of client service goals does not lead

better client service performers to be more challenging than worse performers. Finally, the author provides an alternative to client service framing that prompts auditors to consider the effects of client service on audit judgments, suggesting that an audit-specific framing approach can help align client service and audit quality goals.

Have You Seen...These Educational Resources?

Sean Dennis

University of Central Florida

“Audit Technologies Used in Practice and Ways to Implement these Technologies into Audit Courses.” By Elizabeth Felski. *Journal of Accounting Education* 62 (March 2023): 100827.

This article presents results from a survey of auditors on the audit analytic tools they use in practice – and which auditing skills they believe are most important for students to learn. The article also provides a comprehensive guide to contemporary classroom resources that can help students develop these skills (e.g., Big 4 cases and resources, cases in academic journals). Results show that data wrangling/scrubbing, understanding output, using data analytics tools to capture efficiencies, and data visualization skills are important at both the entry level and the management level. Despite the emergence of several new and innovative technologies, Excel still appears to be the dominant tool in the data analytics space.

“Corruption in the Auditor Inspection Process: The Case of KPMG and the PCAOB.” By Francine McKenna, Mikhail Pevzner, Amy Sheneman, and Tzachi Zach. *Issues in Accounting Education* (August 2022): <https://doi.org/10.2308/ISSUES-2020-056>

This article provides a rigorous and comprehensive account of the “Stealing the Exam” scandal involving KPMG and then-current and former PCAOB employees (this story made several headlines in 2017). The authors outline the PCAOB inspection process and describe KPMG’s efforts to respond to PCAOB criticisms leading up to the scandal. They also discuss the scandal itself, how KPMG uncovered it, how the firm and the PCAOB ultimately responded, and the related consequences for the individuals involved. Following the account, the authors identify five multi-pronged learning objectives and provide instructor guidance for classroom use.

“Two Truths and a Lie: Introduction to Deception Detection.” By Julia Davidyan, Brian Huels, and Jodi Gissel. *Issues in Accounting Education* (July 2022): <https://doi.org/10.2308/ISSUES-2021-054>

This case introduces students to the basic concepts of deception detection using a hands-on activity and the popular ice-breaker game “two truths and a lie”. Each student creates a single-take video of himself/herself using storyboards provided in the case. Students choose two storyboards about which they will provide entirely truthful information and one other storyboard about which they will provide entirely fabricated information. Each student then uploads his/her video to a class discussion board. Students then watch each other’s videos to look for signs of deception and identify fabricated storyboards. The case offers implementation guidance and provides feedback from students who completed the activity.