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Report of the President

By Chad Stefaniak



Greetings Section Members

I hope everyone is having a great summer. Mine has been on the busier side with a move from Columbia, South Carolina to Oxford, Mississippi where I joined the Patterson School of Accountancy at Ole Miss. Luckily, Mississippi in June is the best time to haul heavy furniture due to Mississippi's famously crisp and arid June air. By two hours in, I am pretty sure I got as close to actually melting as a human can. But in all seriousness, it's been a great move and far easier than I expected. With all the change it's just another reason to reconnect with everyone at the Annual Meeting!

This year the Annual Meeting will be in Chicago. The theme for our meeting is "Boldly Building Our Future". The Annual Meeting Planning Committee, consisting of Anne Albrecht, Stephani Mason, and Xinning Xiao (Directors) and Erin Hamilton, Andrew Imdieke, and Eric Rapley (Vice Directors), have been working for several months to put together an outstanding program for the Auditing Section. Please thank them if you see them at the meeting!

Big News! Instead of the traditional Auditing Section luncheon on Monday, August 4th, we are trying something new. In place of a section luncheon, the section is hosting its own Section Business Reception. Now, don't get put off by the name. Many members have run into issues trying to purchase an extra lunch ticket for our traditional lunch, so we're foregoing the luncheon (though I might be able to score you a piece of rubber chicken if you are really hankering for some). In its place, we are having a lively gathering that will take place Monday from 4:00 to 5:30 p.m., right before the Annual Meeting's general reception. Why come?

- It's free for Auditing Section members.
- It's a great pre-reception reception.
- You'll get to celebrate our award winners and participate in the business meeting.
- You'll get a drink ticket.
- Light snacks will be available, because who doesn't like cookies and popcorn?

We're excited about this fresh format and hope it encourages even more of you to join the fun (and save a few bucks while you're at it). See you there!

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

LinkedIn Page. If you haven't already, please follow our brand new [Auditing Section LinkedIn Page!](#) The Communications Committee has been incredible at posting Section content, news from around the profession, and important AAA updates. It's worth a couple clicks of your time.

The **2025 Audit Educators' Boot Camp:** Speaking of LinkedIn, one of the more recent posts was about [this year's Audit Educators' Boot Camp](#), which was held in Chicago in June at the PWC offices. Thank you to **Christine Earley** (her 14th year leading) and **Jason Smith** (his 6th year leading) for leading the boot camp! The conference provides practical resources for those teaching audit classes and valuable insights from audit professionals.

Leadership Transitions: The Annual Meeting is the time when the Section officers and other committee positions transition. Yi-Jing Wu, Vice-President, Academic and incoming President, has completed the staffing of many Section committees and the committee chairs are busy planning their activities for the new academic year. The Executive Committee would like to thank all of the volunteers who served on committees this past year, and also those who have volunteered for the coming year. Without all of the individuals who graciously and enthusiastically volunteer to serve our Section, we could not do the many initiatives that the Auditing Section undertakes to satisfy our mission to "further the discipline and profession of auditing and assurance services through education, research and service." Thanks for all your work!

The Section will be in good hands this coming year as Yi-Jing transitions into the role of President and Helen Brown-Liburd takes over as VP-Academic. I would like to personally and publicly thank Steve Perreault (Treasurer), for all of his efforts over the last few years. Steve was at the helm of our finances as the AAA transitioned through some confusing structural and allocation changes, as well as the AAA transitioning to new treasury functions at the organizational level. He always asked insightful questions and was able to represent the Section wonderfully. Thankfully, our Section is full of talented people, so I'm confident that our new Treasurer (Kerri-Ann Sanderson) will pick up right where Steve left off!

Thanks again to the many individuals who contribute to the mission of our Section. I have enjoyed my time as President. Enjoy the Summer and I look forward to seeing you in Chicago!

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 Spring 2025 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Spotlight on 2024 Inspection Activities
- New Datasets of Inspection Findings
- Meeting of PCAOB Investor Advisory Group
- Staff Videos on New Quality Control Standard
- New Acting Chief Economist
- Spotlight on 2024 Conversations With Audit Committee Chairs
- Audit Focus on Auditing Accounting Estimates
- Meeting of PCAOB Standards and Emerging Issues Advisory Group
- Annual Report on Broker-Dealer Audits
- Settled Disciplinary Orders

PCAOB Developments

Spotlight on 2024 Inspection Activities

On March 31, 2025, the PCAOB released a new staff Spotlight publication “Staff Update on 2024 Inspection Activities.” The publication, which summarizes the 2024 inspection results, indicates that, for all inspected firms, the aggregate Part I.A deficiency rate decreased to 39% in 2024, down from 46% in 2023.

The Spotlight is available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2024-inspection-activities-spotlight.pdf?sfvrsn=86794c04_2

New Datasets of Inspection Findings

On April 28, 2025, the PCAOB announced the availability of new and enhanced downloadable datasets related to PCAOB inspection reports. The new datasets contain multiple years of information related to PCAOB inspection findings and are available in three formats (CSV, XML, and JSON). They contain information from Part I.A and Part I.B of PCAOB inspection reports for use in different applications (e.g., Excel), platforms, or systems. Year-by-year information in these datasets goes back to 2018 for annually-inspected firms and 2019 for triennially-inspected firms and will be updated on a quarterly basis in the future.

The datasets are available at <https://pcaobus.org/oversight/inspections/firm-inspection-reports>.

Meeting of PCAOB Investor Advisory Group (IAG)

On April 29, 2025, the PCAOB held a virtual meeting of the IAG. Agenda topics included:

- IAG Presentation to the Board: Investor Expectations of the Audit;
- IAG Presentation to the Board on Artificial Intelligence: Opportunities and Challenges;
- IAG Presentation to the Board: Update on Talent Pipeline; and
- IAG Request for Notable Critical Audit Matters (CAMs).

The recording and related materials for the meeting are available at <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-2025>. More information about the IAG's request for notable CAMs is available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/information/investor/iag-request-for-camsab466d45-dea1-444c-83a0-3d9c9e5a754b.pdf?sfvrsn=19c6b3bd_1.

Staff Videos on New Quality Control Standard

In April and May 2025, the PCAOB posted a series of staff presentation videos designed to help with implementation of specific components of a firm's quality control (QC) system under QC 1000, *A Firm's System of Quality Control*.

Implementation-related videos, resources, and tools aimed at assisting firms with the implementation of QC 1000 can be found at <https://pcaobus.org/oversight/standards/implementation-resources-PCAOB-standards-rules/quality-control>.

New Acting Chief Economist

On May 8, 2025, the PCAOB announced the appointment of Dr. Joshua T. White as the PCAOB's Acting Chief Economist and Director of its Office of Economic and Risk Analysis (OERA), and the return of Dr. Martin C. Schmalz, who served as PCAOB's Chief Economist and OERA Director since August 2023, to University of Oxford. At the PCAOB, OERA conducts independent, evidence-based economic and risk analyses to inform the organization's oversight activities, including inspections, investigations, rulemaking, standard setting, and post-implementation reviews.

Dr. White joins the PCAOB on leave from his position at Vanderbilt University's Owen Graduate School of Management. His bio is available at <https://pcaobus.org/about/senior-staff/senior-staff-bios/joshua-t.-white>.

Spotlight on 2024 Conversations With Audit Committee Chairs

On May 15, 2025, the PCAOB released a new staff Spotlight publication "2024 Conversations With Audit Committee Chairs." The Spotlight presents high-level observations and takeaways from the 272 interviews that staff conducted with audit committee chairs in 2024. Topics covered include factors

affecting relationships with the audit firm, the economic environment affecting the audit, and the use of emerging technologies in the audit.

The Spotlight is available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/2024-conversations-with-audit-committee-chairs-spotlight.pdf?sfvrsn=fab3ddbd_2.

Audit Focus on Auditing Accounting Estimates

On May 21, 2025, the PCAOB released a new Audit Focus publication “Auditing Accounting Estimates.” Audit Focus is a series of PCAOB publications that aims to provide easy-to-digest information to auditors, especially those who audit smaller companies. This publication provides auditors with reminders and good practices about accounting estimates, an especially challenging aspect of financial statements.

The Audit Focus publication on Auditing Accounting Estimates is available at <https://pcaobus.org/resources/staff-publications/audit-focus--auditing-accounting-estimates>.

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

On May 22, 2025, the PCAOB held a meeting of the SEIAG. Agenda topics included:

- Emerging Issues – Introduction and Breakout Sessions;
- Implementation of New and Amended Standards; and
- The Importance of Firm Culture.

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-may-2025>.

Annual Report on Broker-Dealer Audits

On June 13, 2025, the PCAOB released its “Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers.” Under federal law, the PCAOB has the responsibility to oversee firms that audit broker-dealers registered with the U.S. Securities and Exchange Commission.

The annual report is available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/inspections/reports/documents/2024-broker-dealer-annual-report.pdf?sfvrsn=29b508dd_2. A separate publication – “Supplementary Information Related to Audits of Brokers and Dealers” – accompanies the annual report and is available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/inspections/reports/documents/2024-broker-dealer-supplementary-information.pdf?sfvrsn=ddfdae4c_2.

Settled Disciplinary Orders

The PCAOB posted numerous settled disciplinary orders that imposed monetary penalties and other sanctions. 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

The last half of 2024 and first half of 2025 were busy periods for the ASB. During this time, the board issued exposure drafts and maintained projects related to attestation and sustainability, audit evidence and risk response, firm culture and governance, going concern, listed entities and public interest entities, and technology. You can learn more about the board's work by visiting the [ASB Meeting Materials and Highlights](#) page on the AICPA's website where you have access to the slides, documents, and any other materials used by the ASB during its public meetings.

As is true each year, the ASB said goodbye to several members who concluded their terms on the board at the May meeting. Serving on the board requires a considerable investment of time and effort. I want to thank each of the following individuals: Michael Barton, Barry Berkowitz, Diane Hardesty, Renee Rampulla, Jeff Rapaglia, and Laurie Tish. In addition, I want to extend a special thank you to Sara Lord who concluded her term as chair of the board.

In recent months, the ASB has issued exposure drafts on external confirmations, scope limitations in review engagements, and fraud.

External Confirmations

The ASB issued an [exposure draft](#) that proposes amendments to AU-C section 330 – *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, AU-C section 500 – *Audit Evidence*, and AU-C section 505 – *External Confirmations*. There are various proposed changes including a new requirement for the auditor to use external confirmation procedures (the definition of which includes directly accessing information held by a confirming party) for cash and cash equivalents held by third parties to respond to the assessed risks of material misstatement for certain relevant assertions of significant classes of transactions, account balances, or disclosures. This requirement is similar to a requirement in AS 2310 – *The Auditor's Use of Confirmation*. Comment letters on the exposure draft were due June 30. The feedback received through the comment letter process will be considered by the board during one of its upcoming meetings with a final vote likely to occur later this year.

Scope Limitations in a Review Engagement

The ASB also issued an [exposure draft](#) of a proposed Statement on Standards for Attestation Engagements (SSAE) *Scope Limitations in a Review Engagement*. The comment period ended on May 30. The proposed amendments to AT-C section 210 – *Review Engagements* are responsive to a potential practice issue related to recent regulations for sustainability reporting and the performance of review engagements over such reporting. Given the extent of some disclosure requirements and the emerging nature of sustainability reporting, some practitioners who will perform these engagements in

accordance with AICPA attestation standards (or both AICPA and standards issued by the International Auditing and Assurance Standards Board (IAASB) such as International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Information*, or ISSA 5000) anticipate scenarios in which they may be unable to obtain sufficient appropriate review evidence on which to base their conclusions for some of the disclosures, which would result in a scope limitation. As regulators continue to move to requiring sustainability reporting, practitioners anticipate entities will be required to submit their sustainability reports to such regulatory authorities together with an accompanying practitioner's review report.

The ASB concluded that it would be appropriate to revisit whether practitioners should be permitted to issue a qualified conclusion or a disclaimer of conclusion in a review engagement. As a result of the ASB's deliberations, the board proposed changes such that:

- When, because of a scope limitation, the possible effects of undetected misstatements on the subject matter could be material but not pervasive, the practitioner would either issue a qualified conclusion or withdraw when withdrawal is possible under applicable law or regulation.
- When, because of a scope limitation, the possible effects of undetected misstatements on the subject matter could be both material and pervasive, the practitioner would determine whether it is possible to withdraw in the circumstances. When withdrawal is not possible under applicable law or regulation, the practitioner would be permitted to issue a disclaimer of conclusion.

Fraud

Following a period of work by its Fraud Task Force, the ASB issued an exposure draft of proposed changes to AU-C section 240 – *Consideration of Fraud in a Financial Statement Audit*. Although the proposed standard, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, retains many aspects of extant AU-C 240 the exposure draft includes:

- Revisions to clarify the role and responsibilities of the auditor,
- More robust requirements to promote consistent behavior and facilitate effective responses to identified risks of material misstatement due to fraud,
- Enhanced emphasis on the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures,
- Enhanced transparency on fraud-related procedures when appropriate, including strengthening communications with those charged with governance, and
- Enhanced risk identification and assessment as it relates to fraud or suspected fraud as well as links to other AU-C sections.

The exposure draft will be posted on the AICPA's [website](#) in the near future. Interested readers are encouraged to submit feedback through the comment letter process.

Have You Seen...?

Candice T. Hux, Northern Illinois University

Jenny McCallen, University of Georgia

Delia Valentine, University of Wisconsin – Milwaukee

“Client Restatement Announcement, Audit Office Human Capital Investment, and Audit Quality Improvements” By Daniel Aobdia, Xuejiao Liu, Ke Na, Hong Wu. *Journal of Accounting and Economics* 79(2-3): 101741.

This study finds that audit offices respond to client restatement announcements by increasing the number of future job postings for auditors. These human capital investments reduce future misstatements and losses in client portfolios. Additional analysis reveals an increase in job postings after restatements with more negative announcement returns and restatements of annual financial statements. The effect is also concentrated among more senior and experienced positions. Finally, a falsification test confirms there is no association between client restatements and investment in tax and advisory personnel. Collectively, these findings provide important insights into the responses of audit offices to restatements and the impact on human capital investment decisions and outcomes.

“What Happens to Partners Who Issue Adverse Internal Control Opinions?” By Ashleigh Bakke, Elizabeth N. Cowle, Stephen P. Rowe, and Michael S. Wilkins. *Journal of Accounting Research* 63(3): 649-688.

This study investigates how audit firms balance the tension between professional responsibility and client service by examining changes in partner assignments following adverse internal control opinions (ICOs). The authors find that partners who issue adverse ICOs are more likely to be reassigned and experience unfavorable portfolio changes, including lower fees and less prestigious assignments, and such portfolio effects persist for at least three years. These consequences are also more severe for clients who are important to the local office and at non-Big 4 firms. The findings suggest that audit firms penalize partners for issuing adverse ICOs to maintain client relationships.

“Is the PCAOB Enforcement Approach Aligned with Its Mandate? Perspectives of Sanctioned Auditors and Former PCAOB Enforcement Staff” By Nathan Cannon, Phillip Lamoreaux, Eldar Maksymov, and Noah Myers. *Contemporary Accounting Research* 42(2):807-836.

The authors interviewed 20 previously sanctioned auditors and 13 former PCAOB staff members to evaluate the PCAOB enforcement process through the lens of procedural justice theory. They find that sanctioned auditors perceive that the process they experienced was unfair, citing a lack of adequate representation of their side of the story, prosecutor bias, inaccurate final reports, limited appeal opportunities, a lack of transparency in the process and the PCAOB’s expectations, and an inconsistent application of judgments across firms. PCAOB staff confirmed auditor perceptions and provided a deeper understanding of the process. Notably, they suggested that the PCAOB could improve fairness by incentivizing staff based on work quality rather than on increasing the number and severity of auditor sanctions.

“Does Tax Enforcement Inform Auditors' Risk Assessment? Evidence from Key Audit Matters” By Jessica R. Filosa, Jingjing (Jing) Huang, Lijun (Gillian) Lei, and Sarah E. Stein. *Contemporary Accounting Research* 42(2): 1423-1454.

Auditing standards require auditors to consider regulatory factors and external parties during their risk assessment. In this study, the authors measure the number of key audit matters (KAMs) to capture auditors' risk assessment and use data from the International Survey on Revenue Administration (ISORA) to measure the strength of tax enforcement and likelihood of a tax audit at the country level. They find that auditors report fewer KAMs when companies operate in strong tax enforcement environments. This suggests that auditors perceive a lower risk of material misstatement in such environments and incorporate the tax authority's monitoring capabilities into their risk assessments. The reduced risk extends to both tax and non-tax KAMs, particularly in countries with high book-tax conformity and when auditors have greater experience with complex tax issues. Collectively, these findings contribute to our knowledge of how external monitoring influences auditors' risk assessment.

“The Effects of a Supportive Learning Culture and Rank on Professional Skepticism in Information Search” By Therese Grohnert, Wim H. Gijssels, Roger H.G. Meuwissen, and Ken T. Trotman. *Accounting, Organizations and Society* 114(2): 101590.

This study examines professional skepticism across auditor ranks, focusing on the role of perceived learning culture in promoting skeptical behaviors. They posit that a supportive learning culture promotes skeptical behaviors in the short term and knowledge development in the long term. Using data from 166 Dutch auditors, they find that a more supportive perceived learning culture is associated with more skeptical information search, but only in audit managers and partners, not in associates and seniors. Follow-up interviews with seven firm leaders reveal that this difference is likely due to role expectations and tasks across ranks, specifically noting that managers and partners have higher reputation risk and have had greater socialization and exposure to skeptical values over time.

“Inconsistent Responses to Uncooperative Client Manager Behavior: When Auditors' Judgments and Actions Diverge” By Michael A. Ricci and Dan Rimkus. *Accounting, Organizations and Society* 114: 101593.

This paper examines how auditors respond to uncooperative clients, distinguishing between skeptical judgments and actions. The authors' proposed framework predicts that auditors will increase skeptical judgments but not skeptical actions when encountering uncooperative clients. Study 1 tests and validates their proposed theoretical framework. Study 2 replicates these results and finds that the inconsistency between judgment and action is reduced when actions require less interpersonal contact with the uncooperative client. Studies 3 and 4 examine the relationship from the client perspective and find that client personnel anticipate staff auditor responses to less cooperative behavior and exploit these responses when misreporting or attempting to avoid auditor scrutiny. Together, these studies provide a plausible explanation for conflicting findings in prior literature on auditors' reactions to uncooperative behavior.