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Report of the President

By Yi-Jing Wu



Greetings fellow members of the AAA Auditing Section:

It is finally beginning to feel like fall in West Texas, and with the change in season comes a time of transition. Just as the fall semester marks new beginnings across campus, our section also welcomes changes within the Executive Committee. I am honored to assume the role of President of the Auditing Section and look forward to building upon the exceptional work and leadership that have guided our section thus far.

I would like to begin by thanking Chad Stefaniak for his leadership last year as President. The Auditing Section is fortunate to have an Executive Committee of outstanding members who have stepped up to serve and support our section this year. Chad remains on the Executive Committee as Past President, succeeding Jennifer Joe, and continues to play an active role in our section's leadership efforts. Additionally, Helen Brown-Liburd joins the Executive Committee as Vice President of Academic. James Powell from KPMG is staying on as Vice President of Practice. Kerri-Ann Sanderson is stepping in as our new Treasurer, taking over from Steve Perreault, who has done amazing work in the position. Chad Simon will continue to serve as our representative on the Council. Finally, Marcy Shepardson remains as Secretary of our section. I am grateful for the opportunity to work alongside this exceptional group and for all the support they provide to our section.

Beyond the Executive Committee, our section thrives because of the many members who are willing to volunteer their time to serve on committees. When tasked with filling committee vacancies this past year, I admit feeling overwhelmed with the number of volunteers needed. However, I was deeply heartened by the quick and enthusiastic responses from our members who stepped forward to volunteer their time. It is wonderful to see members serving on committees for the first time alongside those who continue to contribute their time and experience, reflecting our section's ongoing efforts to expand its reach and membership engagement.

State of the Auditing Section

While overall membership remains below pre-pandemic levels, the section ended a multi-year decline with small but encouraging increases in both full and student memberships. The section continues to maintain a healthy financial position, as revenues from membership dues, the EBSCO revenue share, conference registrations, and charitable contributions exceed costs. However, our profitability is reduced from prior year largely due to the new AAA administrative overhead allocations starting in FY25 for meetings held by various sections and the section's new initiative to encourage students and professionals interested in pursuing a Ph.D. and an academic career in auditing (The Pathway into PhD Experience Auditing Section - *PIPEline* Program). Notwithstanding the decrease in profitability, we anticipate that the section will maintain a net positive cash position.

To celebrate our section's success and in appreciation of our members' continued support, this year's AUD membership fees will be reduced by \$40 and registration for the Midyear meeting by \$100. Annually, we will review fees to ensure a balance between membership services and the section's fiscal stability. The Executive Committee is continually exploring new and meaningful ways our section can better serve and add value for our members.

2026 Midyear Meeting in San Antonio, TX

The 2026 [Midyear Meeting](#) will be held at the Hyatt Regency San Antonio Riverwalk January 15-17, 2026. The hotel is ideally located with direct access to the Riverwalk and several popular attractions, including The Alamo, the Shops at Rivercenter, and multiple Riverwalk cruise embarkation points. It is also within walking distance to many top-rated restaurants. The 2026 Midyear meeting Chairs are Nathan Berglund, Melissa Carlisle, and Zach Kowaleski, who are already hard at work crafting an engaging and high quality program for attendees. They are assisted by Vice Chairs Anne Albrecht, Stephani Mason, and Xinning Xiao. There are also several preconference events to note. The Doctoral Consortium will be led by Tamara Lambert (Chair) and Lauren Cunningham (Vice Chair). In addition, the Excellence in Auditing Workshop led by Eric Rapley (Chair), Vaness Teitelbaum from The CAQ (Practice Chair) and Danielle Booker (Vice Chair). Last but not least, the PIPEline program returns for a second year overseen by Erin Hawkins (Chair) and Marcus Doxey (Vice Chair).

In closing, I want to thank you all for your ongoing support of the Auditing Section and for the privilege of serving as President. We value your input and encourage you to share any ideas or suggestions with the Executive Committee on how we can make your membership experience even better.

I look forward to seeing you in San Antonio!

Warm regards,

Yi-Jing Wu
Texas Tech University

PCAOB Update

By Barbara Vanich and Elena Bozhkova

PCAOB Acting Chief Auditor and PCAOB Assistant Chief Auditor

Introduction

This Update addresses select Public Company Accounting Oversight Board (PCAOB) developments since the Summer 2025 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Audit Focus on Engagement Acceptance
- PCAOB Acting Chair Appointed
- PCAOB Scholars Announced for the 2025-2026 Academic Year
- Launch of Smaller Firm Resource Group
- Postponement of the Effective Date of QC 1000
- Recommendations From the Technology Innovation Alliance Working Group Posted to PCAOB Website
- Audit Focus on Exemption Report Review for Broker-Dealer Auditors
- Board Policy Statement and Staff Guidance on Evaluating the Reliability of External Electronic Information Provided by the Company
- Meeting of PCAOB Investor Advisory Group
- 2025 PCAOB/Management Science Registered Reports Conference
- 2025 PCAOB Conference on Auditing and Capital Markets
- New Data Points Series of Publications
- Settled Disciplinary Orders

PCAOB Developments

Audit Focus on Engagement Acceptance

On July 7, 2025, the PCAOB released a new Audit Focus publication “Engagement Acceptance.” The publication highlights key reminders for auditors who audit smaller public companies of PCAOB standards related to engagement acceptance for initial engagements for new clients. The Audit Focus also shares good practices that the PCAOB staff has observed.

The Audit Focus publication is available at <https://pcaobus.org/resources/staff-publications/audit-focus-engagement-acceptance>.

PCAOB Acting Chair Appointed

On July 21, 2025, the Securities and Exchange Commission designated PCAOB Board Member George R. Botic as Acting Chair of the PCAOB. Former PCAOB Chair Erica Williams left the organization on July 22, 2025.

More information about Acting Chair Botic is available at <https://pcaobus.org/about/the-board/board-bios/george-r-botic>.

PCAOB Scholars Announced for the 2025-2026 Academic Year

On July 22, 2025, the PCAOB announced that 685 students from U.S. colleges and universities were selected to each receive a \$15,000 merit-based scholarship for the 2025-2026 academic year.

The Sarbanes-Oxley Act of 2002 provides that funds from the collection of PCAOB monetary penalties must be used to fund a merit scholarship program for students in accredited accounting degree programs. The program's overarching goals are to (1) benefit outstanding students who are likely to become auditors and (2) make a difference to eligible students who might otherwise pursue a different career path. Scholarship recipients are nominated by their respective institutions, which participate in the PCAOB Scholars Program based on their accreditation and the number of students they graduate with accounting degrees each year.

A description of the program, including information on the nomination process, the selection of nominating institutions, and other details, can be found on the PCAOB Scholars Program page at <https://pcaobus.org/about/scholars-program>.

All participating institutions, along with the students named PCAOB Scholars this year, are available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/documents/receipient-list---website.pdf?sfvrsn=b102490d_1.

Launch of Smaller Firm Resource Group

On August 26, 2025, the PCAOB announced the formation of the Smaller Firm Resource Group, an advisory group of professionals from smaller audit firms. The Smaller Firm Resource Group will advise PCAOB staff on:

- Auditing and related professional practice standards.
- Inspections and related activities.
- Economic considerations, including but not limited to costs and benefits of PCAOB programs, and their impact on audit quality among smaller firms.

More information about the Smaller Firm Resource Group is available at <https://pcaobus.org/about/working-groups-task-forces/smaller-firm-resource-group>.

Postponement of the Effective Date of QC 1000

On August 28, 2025, the PCAOB announced that it is postponing for one year, to December 15, 2026, the effective date for QC 1000, *A Firm's System of Quality Control*, and other new and amended PCAOB standards, rules, and forms adopted by the Board on May 13, 2024. The Board's action also postpones the related rescission date of certain rules and standards that are currently in force.

More information about the postponement is available at <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-postpones-effective-date-of-qc-1000-and-related-standards--rules--and-forms>.

Technology Innovation Alliance Working Group Recommendations Posted to PCAOB Website

On September 3, 2025, a study by and recommendations from the Technology Innovation Alliance (TIA) Working Group was posted to the PCAOB website. The TIA Working Group was chaired by Board Member Christina Ho and brought together professionals from outside of the PCAOB with expertise in emerging technologies.

The TIA Working Group prepared the following two documents that have been posted to the PCAOB website:

- **Current State Deliverable (August 30, 2023):** This study offers perspective on the needs and motivations of investors and others, the broad evolution of auditing, an overview of the current state of technology in auditing and financial reporting, and challenges related to technology adoption for auditors and preparers.
- **Transforming Audit Quality Through Technology (May 30, 2024):** In addition to providing further context on the use of technology in auditing, this report presents four strategic ideas on ways that the PCAOB can promote the use of technology in auditing, including promoting structured data creation and dissemination in public company audits; focusing on the use of AI in public company audits; regulatory innovation capacity building to facilitate ongoing innovation in audit quality, including by establishing an Innovation Lab; and encouraging technology literacy in auditor skillsets.

The two documents are available at <https://pcaobus.org/about/working-groups-task-forces/technology-innovation-alliance-working-group>.

Audit Focus on Exemption Report Review for Broker-Dealer Auditors

On September 11, 2025, the PCAOB released a new Broker-Dealer Audit Focus publication “Review Engagements Regarding Exemption Reports.” The publication highlights key reminders for auditors from Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*, provides the staff’s perspectives on common deficiencies observed in auditors’ work, and shares good practices that PCAOB staff has observed.

The Audit Focus publication is available at <https://pcaobus.org/resources/staff-publications/broker-dealer-audit-focus--review-engagements-regarding-exemption-reports>.

Board Policy Statement and Staff Guidance on Evaluating the Reliability of External Electronic Information Provided by the Company

On September 18, 2025, the PCAOB released a Board policy statement to assist auditors in implementing paragraph .10A of AS 1105, *Audit Evidence*. The Board policy statement describes certain circumstances in which the Board will not treat the absence of separate testing under paragraph .10A(b) as noncompliance with PCAOB auditing standards. On October 1, 2025, the PCAOB released related staff guidance that provides illustrative examples of the application of paragraph .10A(b).

The Board policy statement is available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-052/pcaob-release-no-2025-004.pdf?sfvrsn=b0eb83d5_2.

The staff guidance is available at <https://pcaobus.org/standards/documents/staff-guidance-examples-of-evaluating-the-reliability-of-external-information-provided-by-the-company-in-electronic-form.pdf>.

Meeting of PCAOB Investor Advisory Group (IAG)

On September 25, 2025, the PCAOB held a meeting of the IAG. Agenda topics included:

- Remarks by Acting Chair Botic and Board Members;
- IAG Presentation to the Board on Private Market Valuations;
- IAG Presentation to the Board on Internal Controls of Financial Reporting;
- IAG Presentation to the Board on Decision-Useful Critical Audit Matters; and
- DRI Update on Foreign Inspections.

The recording and related materials for the meeting are available at <https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-september-2025>.

2025 PCAOB/Management Science Registered Reports Conference

On September 26-27, 2025, the PCAOB and *Management Science* held a joint conference focused on registered report proposals relating to audit-related topics. The conference aims to facilitate collaboration among academics, practitioners, and regulators to address emerging challenges in the audit landscape by stimulating academic interest in areas of significance to the PCAOB's mission.

More information about the conference is available at <https://pcaobus.org/news-events/events/2025-pcaob-management-science-registered-reports-conference>.

2025 PCAOB Conference on Auditing and Capital Markets

The PCAOB, in conjunction with *The Accounting Review*, announced the 2025 Conference on Auditing and Capital Markets. This year's conference will be held in person in Washington, DC on October 16-17, 2025. Attendance is free and open to academics and Ph.D. students.

The conference aims to:

- Foster rigorous economic research on audit-related topics, including the economic impact of auditing, audit regulation, and audit oversight on capital markets.
- Inform the academic community about PCAOB activities and developments.
- Obtain input from the academic community on topics of interest to the PCAOB.

More information about the conference is available at <https://pcaobus.org/news-events/events/conference-auditing-capital-markets/2025-pcaob-conference-on-auditing-and-capital-markets>.

New Data Points Series of Publications

Prepared by the PCAOB's Office of Economic and Risk Analysis (OERA), the Data Points series presents concise, data-driven insights relevant to audits. Each edition of Data Points offers factual information drawn from PCAOB datasets and other available sources. Data Points publications have been released on the following topics:

- Registered Firms Staffing Trends
- Who Audits Emerging Growth Companies?
- Auditors of SPACs at IPO

Data Points publications are available at <https://pcaobus.org/resources/staff-publications/data-points>.

Settled Disciplinary Orders

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

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

Have you Seen...?

Candice T. Hux, Northern Illinois University

Jenny McCallen, University of Georgia

Delia Valentine, University of Wisconsin – Milwaukee

“Can Combining Judgment Decomposition and Notetaking Improve Group Auditors’ Sensitivity to Qualitative Risk” By Ann G. Backof, Brant E. Christensen, Steven M. Glover, and Jamie J Schmidt. *Contemporary Accounting Research* (online early).

This study examines how auditors can improve their attention to qualitative risks in group audits, which regulators often find are overlooked. Using an experiment with experienced auditors, the authors examine a hybrid risk assessment approach that combines judgment decomposition (separately evaluating quantitative and qualitative risks) with structured notetaking to enhance integration of information. They find the hybrid approach improves both the quality of risk assessments and their planned response to identified risks. Specifically, this hybrid method helps auditors identify and respond to qualitative component-level risks without reducing their attention to quantitative risks. Importantly, auditors using the hybrid approach focused more effort on risky components rather than spreading effort across all components, improving audit effectiveness without adding unnecessary work. The findings suggest that firms could enhance group audit quality by providing auditors with structured guidance to separately evaluate and document both quantitative and qualitative risks as part of their planning process.

“Duality in Skepticism: Contrasting Judgment and Action” By Emily S. Blum and Richard C. Hatfield. *Contemporary Accounting Research* (online early).

This paper considers the question of why auditors may exhibit skeptical judgment but fail to engage in skeptical actions. The authors propose that skeptical judgment involves spotting risks and skeptical action involves responding to those risks, and that these behaviors are driven by different forces. Specifically, they suggest that vigilance, which leads to a deliberate and slow evaluation of cues, strengthens skeptical judgment. However, vigilance also heightens awareness of personal risks, which may discourage auditors from acting skeptically. The authors test these propositions with two studies. The first study finds that auditors with a prevention focus are more likely to engage in skeptical judgments, while those with a promotion focus are more likely to engage in skeptical actions. The second study finds that auditors with a deliberative mindset are likely to show skeptical judgment, while those with an implementational mindset are more likely to engage in skeptical action. Together, the findings suggest that the conditions for skeptical judgment may differ from those for converting that judgment into skeptical action.

“Does Audit Partner Individualism Reduce Client Earnings Comparability? Evidence from the United States” By Young Kim, Yinghua Li, and Dechun Wang. *Contemporary Accounting Research* 42(3): 2090-2121.

This study investigates whether audit partner individualism (defined as a personal trait reflecting independence and self-direction) reduces earnings comparability among clients in the U.S. Using a measure based on the uncommonness of audit partners' first names to identify individualism, findings suggest that earnings are less comparable between companies audited by more individualistic partners. The effect is mitigated when audit firms face strong regulatory scrutiny, such as PCAOB inspections or SEC comment letters, and when clients are more economically important. Alternatively, the effect is stronger when individual partners are older, have a longer tenure with the client, and have industry expertise. Importantly, despite the reduced comparability, audit quality is not impaired, and contagion is mitigated across the office.

“Consequences for Culpable Auditors” By Jagan Krishnan, Meng Li, Mihir N. Mehta, and Hyun Jong Park. *Journal of Accounting Research* 63(4): 1493-1546.

This study examines the labor market and personal consequences for U.S. audit professionals named in SEC or PCAOB enforcement actions from 2003 to 2019. The frequency of enforcements is relatively stable between 2003 and 2014 with the SEC (PCAOB) issuing, on average 13 (6) enforcement cases per year against culpable auditors. After the SEC initiated Operation Broken Gate, the number of enforcements increased. Individual consequences for culpable auditors can be severe. Fines occur in about 35% (36%) of SEC (PCAOB) cases, averaging from \$13,852 to \$74,776. Notably, 73% of culpable auditors from Big 4 firms depart within one year after the enforcement event compared to 57% from non-Big 4 firms. These departure rates are three to four times higher than those of non-culpable auditors. Finally, a majority of culpable auditors exit the profession, underscoring the career consequences of these enforcement actions.

“Inheriting Versus Developing Data Analytic Tests and Auditors’ Professional Skepticism” By Xiaoxing, Li, Joseph F. Brazel, Anna Gold, and Justin Leiby. *Journal of Accounting Research* (online early).

This study experimentally examines auditors’ use of audit data analytics (ADA), noting that as ADA becomes more commonplace, auditors are increasingly likely to inherit analytics developed by others rather than fully develop and own them themselves. The paper hypothesizes and finds that inheriting ADA decreases auditors’ skeptical actions compared to when they develop the ADA themselves. Evidence from mediation analyses suggests that these effects are driven by decreased psychological ownership when auditors inherit the ADA. Importantly, including information about the process utilized to develop the ADA reduces the negative effect of inheriting the ADA on skepticism. Further, the authors find that when auditors are higher in trait empathy, informing auditors about ADA moderates the negative effect of inheriting it.

“Offshore Shared Services Center Usage by U.S. Big 4 Audit Engagement Teams” By Matthew G. Sherwood. *Journal of Accounting Research* 63(4): 1679-1722.

Using proprietary data from PCAOB inspections, this study investigates how U.S. Big 4 audit firms use offshore services in their audits. Shared Services Centers (SSCs) align with firms’ goals to achieve economies of scale, improve efficiency, and reduce workload pressure. Descriptively, usage of SSCs

increased significantly over the sample period from 2013 to 2018 and is nearly universal across Big 4 audits. Results from inspected engagements are consistent with SSCs improving the efficiency of the audit process. Specifically, their use is associated with fewer audit hours and lower audit fees. Importantly, SSC usage does not appear to impair audit quality, whether measured by discretionary accruals, the likelihood of restatement, or the likelihood of a Part I inspection finding. Collectively, the results support audit firms' strategic use of SSCs.