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# Report of the President

By Jennifer Joe



I hope everyone is having a great semester and looking forward to a pleasant summer. I'd like to take this opportunity to thank the Executive Committee: Allan Blay (Past President), Chad Stephaniak (Vice-President Academic), Margot Cella (Vice-President Practice), Steve Perreault (Treasurer), Kenneth Bills (Secretary), Karla Johnstone (Historian), and Chad Simon (Council Representative). This team is a pleasure to work with and cares greatly for the well-being of the Auditing Section and its members. I appreciate their great ideas and wise counsel, particularly as we look forward for how best to continue to guide the section.

## **2024 Auditing Section Midyear Meeting, Doctoral Consortium, and Audit Educator's Workshop**

The 2024 Midyear held in New Orleans was a great success with approximately 400 members in attendance. We are grateful to our sponsors: The Center for Audit Quality and KPMG for their generous support. Thanks to our meeting Co-Chairs Joshua Gunn, Lauren Reid, Andrew Trotman, Ally Zimmerman, and Vice-Chairs Eric Condie, Christine Gimbar, Roy Schmardebeck, Tim Seidel who did an excellent job putting together a meeting filled with opportunities to learn about each other's research and to network. There were 133 manuscript submissions for the concurrent sessions and 82 papers were selected for the program. Thanks to everyone who volunteered their time as discussants and moderators of the sessions. The two plenary sessions were well-attended. The Friday session featured a spirited Fireside Chat with former PCAOB professionals: Claudius Modesti and Jim Kaiser, which was moderated by John Keyser. On Saturday Chuck Bamford lead a strategic planning session (more below).

The section gave its best conference paper awards during the Friday luncheon. At the Saturday luncheon we celebrated the winners of annual awards. These award winners are all selected by volunteer committees. Thank you to all the committees and congratulations to all the award recipients. You can find the award listings and winners on our web page <http://aaahq.org/AUD/Awards>. It's not too early to consider nominations for the 2025 awards.

In addition to the events at the MYM, the Section hosted its annual Doctoral Consortium and the Excellence in Audit Education Workshop. Please join me in thanking Bradley Bennett for his leadership of the Doctoral Consortium this year. The Consortium represents a great opportunity for emerging scholars to learn from senior colleagues and to get to know their peers. Please also join me in thanking Lindsay Andiola, Chair; Kim Westermann, Vice Chair and Margot Cella, Vice Chair – Practice for their leadership of the Excellence in Audit Education Workshop. The Workshop is a great resource for us to keep current and learn from front-line auditors how to better prepare the next generation for a changing profession. They assembled a great group of practitioners to help us with the workshop as well as the rest of the meeting.

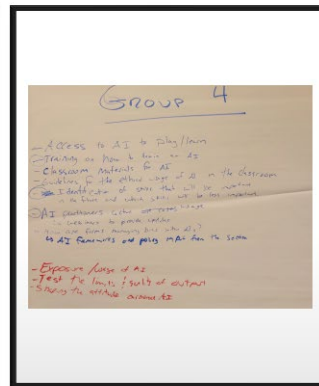
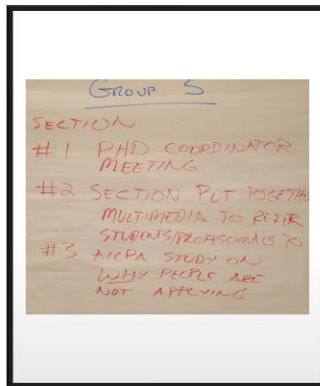
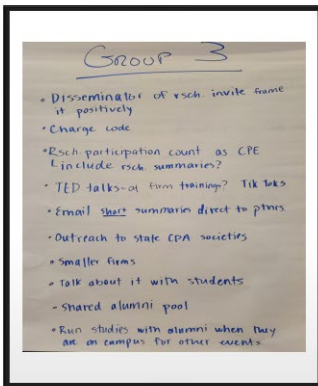
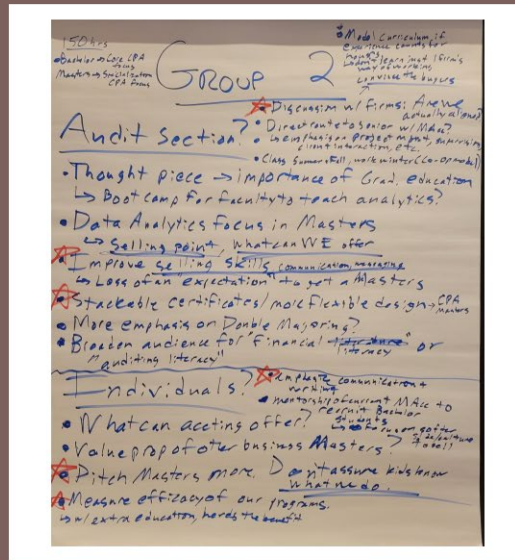
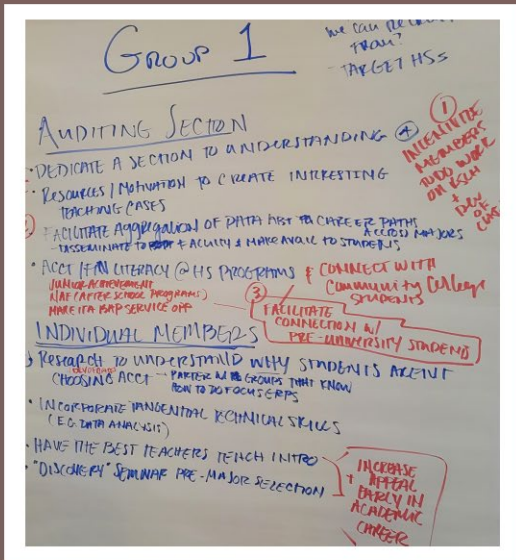
Our next midyear meeting will be held in Charlotte, NC on January 16-18, 2025. That location offers a convenient airport hub and great dining and entertain options. I hope to see you all there. Please check the Auditing Section's website for updates.

### **Strategic Planning**

The theme of strategic planning plenary was Envisioning The Auditing Section of the Future. Leading up to the MYM members selected the top 5 areas of interest for the future of the session. At the plenary session, members broke into five groups to brainstorm on the following topics:

- Declining Enrollments in Accounting – **Group 1**
- 150 Hour Issue – **Group 2**
- Recruiting Students into the Audit Track – **Group 3**
- Addressing Changes in Technology Approaches – **Group 4**
- Recruiting Ph.D. Students into Audit – **Group 5**

Below are some of the great ideas and recommendations. We are in the process of establishing five taskforces to address these topics. Please contact [Chad Stefaniak](#) and I to volunteer for a Taskforce.



## Committee Activities

Our committees are always hard at work to fulfill the mission of the Section. Please see our web page for their names and responsibilities <http://aaahq.org/AUD/Officers-and-Committees#comchair>. They all do an outstanding job and are the lifeblood that keeps our section moving along and excelling. Please contact Chad Stephaniak if you would like to serve on a committee in the coming year. He will be assigning committees over the next few months for a September 1 start date.

## Research and Teaching Excellence Opportunities

As you plan your research agenda, please consider the opportunity to submit to the special issues of our section journal:

AJPT Call for papers:

- Research Forum on Technology, Audits & Auditors
- Research Forum on the Role of Assurance in Non-Financial Reporting
- Shorter Papers
- Unexpected or Non-Significant Results in Experimental Research

## **Annual Meeting 2024**

Planning for the Annual Meeting is well underway. The meeting will be held in Washington, DC, August 10 - 14. The theme is "Revolutionizing Accounting Education." I would like to thank the Auditing Section planning committee led by Co-Chairs: Nathan Berglund, Melissa Carlisle, Zach Kowaleski and Vice Chairs: Stephani Mason, Anne Albrecht, Xinning Xiao. They are working hard to coordinate the review process, put together concurrent sessions and panel sessions, and assist the AAA staff in ensuring a valuable experience for all of our members. If you haven't already, please volunteer as a moderator or discussant so that all presenters can receive high quality feedback on their papers. Also, when you see them next, please thank these individuals for their effort on this enormous task.

## **Closing Remarks**

It is a busy time of the year, so it is easy to forget how lucky we are to have one of the best careers. We experience a constant audience of smart and (mostly) interested students with whom we can discuss interesting and challenging issues. We have the freedom to direct our own research agendas with research that is of interest to us. I encourage all of you to advance the horizon of knowledge through your research, so that we unveil new discoveries. I thank all of you for the time and energy you have put into the section and into being academics. I have enjoyed working with you to advance our Section's mission "Enhancing Audit Integrity." We continue to have the best AAA Section.

Best wishes,

Jennifer Joe

## Awards Presented at 2024 Auditing Section Midyear Conference

### Audit Midyear Meeting Best Behavioral Paper Michael Ricci, Blake Bowler and W. Robert Knechel

*(From Left: Jennifer Joe, Robert Knechel, Blake Bowler, Michael Ricci)*





**Audit Midyear Meeting Best Archival Paper  
Jonathan Black, Theodore Goodman, Benjamin Hubbard and Beverly Larson**

*(From Left: Jennifer Joe, Benjamin Hubbard, Jonathan Black, Beverly Larson)  
(not pictured: Theodore Goodman)*



**Audit Midyear Meeting Best Phd Student Paper  
Jennifer Puccia**

*(From Left: Jennifer Puccia, Jennifer Joe)*





**Audit Midyear Meeting Best Phd Student Paper  
Musaib Ashraf**

*(Recipient unavailable for photograph)*

**Auditing: A Journal of Practice & Theory Best Paper Award**  
**Tim D. Bauer, Kerry A. Humphreys and Ken T. Trotman**

*(From Left: Jayanthi Krishnan, Tim D. Bauer, Jennifer Joe)*  
*(Not pictured: Kerry A. Humphreys, Ken T. Trotman)*



**Outstanding Auditing Dissertation and Dissertation Chair  
Anne Thompson and Bethany Brumley**

*(From Left: Tamara Lambert, Anne Thompson, Bethany Brumley, Jennifer Joe)*





**Notable Contribution to the Auditing Literature  
Jeffrey Cohen, Greg Trompeter and Kim Westermann**

*(From Left: Kim Westermann, Jennifer Joe)  
(Not Pictured: Jeffrey Cohen, Greg Trompeter)*



**Distinguished Service  
Mark Beasley**

*(From Left: Mark Beasley, Jennifer Joe)*





**Outstanding Educator  
Vicky B. Hoffman**

*(From Left: Jennifer Joe, Vicky B. Hoffman, Denise Downey)*



# **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 2023 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Revised Standard-Setting, Research, and Rulemaking Agendas
- Meeting of PCAOB Standards and Emerging Issues Advisory Group (SEIAG)
- Spotlight on Priorities for 2024 Inspections and Interactions with Audit Committees
- Spotlight on Observations from the Target Team’s 2022 Inspections
- Spotlight on Insights into the PCAOB’s Interim Inspection Program Related to Audits of Broker-Dealers
- 2024 PCAOB/TAR Registered Reports Conference on Current Issues in Auditing
- Virtual Roundtable on NOCLAR Proposal, Reopened Comment Period
- Proposed Rule Prohibiting False Statements About PCAOB Registration and Oversight
- Settled Disciplinary Orders

#### **Revised Standard-Setting, Research, and Rulemaking Agendas**

On November 1, 2023, PCAOB staff posted revised standard-setting, research, and rulemaking agendas. The agendas include eight short-term standard-setting projects, six mid-term standard-setting projects, two research projects, and four rulemaking projects.

The revised agendas are available at <https://pcaobus.org/oversight/standards/standard-setting-research-projects>.

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

On November 2, 2023, the PCAOB held a virtual meeting of the SEIAG. Agenda topics included:

- Standard-Setting and Rulemaking Projects Update
- Emerging Issues in Auditing Subcommittee Discussion
- Auditing Inventories
- Use of a Service Organization

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-1>.

#### **Spotlight on Priorities for 2024 Inspections and Interactions with Audit Committees**

On December 20, 2023, the PCAOB issued a Spotlight that outlines priorities for 2024 inspections and contains suggested questions for audit committee members to consider amongst themselves or in discussions with their independent auditors. The report highlights key risks, like high interest rates, and other considerations, like audit areas with recurring deficiencies, that auditors should be focused on when planning and performing audit procedures. It notes that the PCAOB will continue to prioritize inspections of financial-services sector audits, digital assets, and more. The report also reiterates the inspection staff's commitment to enhancements to the inspection program, such as increasing the number of engagements reviewed and improving the timeliness of inspection reports.

The Spotlight is available at [https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/2024-priorities-spotlight.pdf?sfvrsn=7c595fae\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/2024-priorities-spotlight.pdf?sfvrsn=7c595fae_4).

### **Spotlight on Observations from the Target Team's 2022 Inspections**

On December 21, 2023, the PCAOB issued a Spotlight that provides auditors and other stakeholders with a view into the target team's work in 2022, including observations, good practices, and key insights. The target team is a group of inspectors who execute in-depth reviews across audit firms with a focus on emerging audit risks and other topics.

The Spotlight is available at [https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/target-team-2022-inspections-spotlight.pdf?sfvrsn=7917915b\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/target-team-2022-inspections-spotlight.pdf?sfvrsn=7917915b_4).

### **Insights into the PCAOB's Interim Inspection Program Related to Audits of Broker-Dealers**

On January 30, 2024, the PCAOB issued a Spotlight that provides inspection-related insights and reminders from the PCAOB staff regarding potential factors contributing to the high deficiency rates in broker-dealer engagements. Based on results from the PCAOB interim inspection program of broker-dealer audits, PCAOB staff believes there is a need for significant improvement in the quality of broker-dealer audit and attestation engagements.

The Spotlight is available at [https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/2024-broker-dealer-spotlight.pdf?sfvrsn=b6f72dff\\_2](https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/2024-broker-dealer-spotlight.pdf?sfvrsn=b6f72dff_2).

### **2024 PCAOB/TAR Registered Reports Conference on Current Issues in Auditing**

On February 21, 2024, the PCAOB and The Accounting Review (TAR) announced a joint conference focused on registered report proposals relating to auditing and audit-related topics. The conference will be held in person in Washington, DC, on June 12-13, 2024. Researchers are invited to submit registered report proposals for consideration for presentation at the conference.

More information about the conference, including topics of interest and submission details, are available at <https://pcaobus.org/news-events/pcaob-tar-registered-reports-conference-on-current-issues-in-auditing-call-for-registered-report-proposals>.

## **Virtual Roundtable on NOCLAR Proposal, Reopened Comment Period**

On February 26, 2024, the PCAOB announced that, on March 6, 2024, staff will host a public virtual roundtable regarding the proposal to amend PCAOB auditing standards related to the auditor's responsibility for considering a company's noncompliance with laws and regulations (NOCLAR). The objective of the roundtable is to obtain additional insight from commenters, stakeholders, and experts as PCAOB staff works toward a final recommendation to the Board. In light of the roundtable, the Board reopened the comment period for the NOCLAR proposal through March 18, 2024.

More information, including a briefing paper for the roundtable, is available at <https://pcaobus.org/news-events/events/event-details/pcaob-staff-virtual-roundtable-on-noclar-proposal>.

## **Proposed Rule Prohibiting False Statements About PCAOB Registration and Oversight**

On February 27, 2024, the PCAOB proposed for public comment new PCAOB Rule 2400, *False or Misleading Statements Concerning PCAOB Registration and Oversight*. The proposed rule would address how auditors present their PCAOB registration status, including the scope of the PCAOB's oversight of their work. If adopted, the rule would prohibit statements regarding a firm's registration status to clients, potential clients, or the public that are false or misleading. The proposal also includes a proposed rule amendment that would permit the Board, under specified conditions, to treat a PCAOB-registered firm's repeated failures both to file annual reports and to pay annual fees as a constructive request for leave to withdraw from PCAOB registration.

The deadline for public comment on the proposal is April 12, 2024.

The proposal, comment letters received, and supplemental materials are available at <https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-054>.

## **Settled Disciplinary Orders**

The PCAOB posted numerous settled disciplinary orders that imposed significant 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

Since the last update in the Fall of 2023, the ASB has been working on standard setting projects involving attestation standards, fraud, leveraging technology, sustainability, going concern, audit evidence, and the definition of listed entity and public interest entity. The ASB has not taken final actions on any of these matters. You can visit the [ASB Meeting Materials and Highlights](#) page on the AICPA's website to learn more and access the slides and documents used by the ASB during its public meetings.

Fraud, going concern, and sustainability are among the issues being discussed during task force meetings. Because task force meetings are not open to the public, the following provide only an overview.

#### **Fraud**

The ASB's Fraud Task Force (TF) is continuing to review extant AU-C 240, *Consideration of Fraud in a Financial Statement Audit*, for potential changes to enhance how an auditor approaches the matter of fraud during an audit of financial statements. In addition, the TF has been discussing the potential effects of outreach undertaken by the ASB to understand forensic professionals' views on potential actions to enhance auditors' identification, assessment, and response to fraud risks. The TF is also monitoring work by the IAASB's Fraud TF on potential changes to extant ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. The IAASB is considering enhancements to audit procedures related to fraud as well as changes to the auditor's report language meant to provide greater transparency about fraud matters encountered during an audit. The proposed changes to the auditor's report are currently expected to be applicable only to listed entities and will use the key audit matters reporting model. You can read more about the IAASB's [fraud project](#) on their website. Although the PCAOB also has a fraud project on their standard setting agenda, it is shown on their [website](#) as a mid-term standard setting project.

#### **Going Concern**

The ASB, IAASB, and PCAOB are all pursuing standard-setting projects on going concern. The IAASB is currently analyzing comments that it received on its [exposure draft](#) to ISA 570 (Revised), *Going Concern*. The PCAOB has a short-term standard setting project on going concern with a target to issue a proposal in 2024. The ASB's Going Concern TF has been monitoring the work at the IAASB and has asked a team of academics to conduct experimental research to examine how key financial reporting stakeholders respond to proposed changes in the auditor's report language. As noted in the update from Fall of 2023, the ASB's Going Concern TF performed significant outreach related to going concern (and fraud) and is considering the results as they contemplate changes to extant AU-C 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

#### **Sustainability**



The ASB's Sustainability TF has been analyzing the requirements in proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, to understand the nature of the proposed requirements and to determine which requirements may need to be included in the ASB's base attestation standards (i.e., AT-C section 105, 205, and 210) and/or a new sustainability-specific AT-C section. The TF is also analyzing application material in proposed ISSA 5000 and considering implications for the AICPA's Sustainability guide. The project is ongoing, but the TF plans to issue an exposure draft for any new sustainability AT-C section and any amendments to the base AT-Cs by late 2024 or early 2025.

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

**Candice Hux, Northern Illinois University**

**Jenny McCallen, University of Georgia**

**Delia Valentine, University of Wisconsin-Milwaukee**

**“How Does Depletion Interact with Auditors’ Skeptical Dispositions to Affect Auditors’ Challenging of Managers in Negotiations” By Lori S. Bhaskar, Tracie M. Majors, and Adam Vitalis. *Contemporary Accounting Research* 40 (4): 2288-2313.**

This paper utilizes multiple methods to examine how the interaction of depletion and skeptical disposition affects the extent to which auditors are willing to challenge management during negotiations over financial statement amounts. The authors posit that if auditors are depleted during the busy times when negotiations occur, they may exert less effort in negotiations with management; however, the degree to which depletion leads to less effort during negotiations will depend on the auditor’s skepticism. Specifically, the authors predict and find that low-skeptical auditors (i.e., those focused on client service) challenge managers less in negotiations when depleted than nondepleted, while high-skeptical auditors (i.e., those focused on maintaining a questioning mind) challenge management more when depleted. Their follow-up interviews with audit partners validate the realism of depletion during the negotiation phase of the audit by identifying depletion triggers, depletion management strategies, and how depletion affects audits.

**“Externalities of Financial Statement Fraud on the Incoming Accounting Labor Force” By Robert R. Carnes, Dane M. Christensen, and Paul E. Madsen. *Journal of Accounting Research* 61 (5): 1531-1589.**

This study examines the impact of fraud on the labor force entering the accounting profession. Using data describing millions of college students across the United States, results suggest incoming students are more likely to major in accounting following local frauds during their formative years. These students are also more likely to have attributes desired by the accounting profession such as high academic aptitude, a predisposition to public service, and less commercial orientation. Moreover, these students are more likely to work in public accounting and become Certified Public Accountants. Collectively, these results suggest fraud may have an unintended consequence of attracting a high-quality labor force to the accounting profession.

**“Auditing with Data and Analytics: External Reviewers’ Judgments of Audit Quality and Effort” By Scott A. Emett, Steven E. Kaplan, Elaine G. Mauldin, and Jeffrey S. Pickerd. *Contemporary Accounting Research* 40(4): 2314-2339.**

This study examines how external reviewers perceive audit firms’ use of data and analytics (D&A) audit approaches. Using two experiments, results show that reviewers revert to an effort heuristic to evaluate audit procedure quality. Specifically, reviewers perceive that D&A take less effort than traditional audit procedures, which leads to perceptions of lower audit procedure quality. Results further reveal that the

audit firm's quality message that "effort-can-be-substituted," rather than "effort-is-essential," can reduce reliance on the effort heuristics. These findings extend our understanding of why audit firms may be hesitant to utilize D&A approaches without further guidance on how to evaluate the quality of D&A procedures.

**"The Effects of Non-Big 4 Mergers on Audit Efficiency and Audit Market Competition" By Andrew Kitto. *Journal of Accounting and Economics* 77 (1): 101618.**

This study examines recent mergers between small and midsize accounting firms in the U.S. public company audit market from 2004 to 2016. Results are consistent with in-market mergers generating efficiencies without compromising audit quality. Moreover, clients switching to post-merger firms are more likely to be accelerated filers and significantly larger and more complex. Finally, smaller clients appear to gain bargaining power with Big 4 firms operating in the same market. Collectively, these findings suggest merger activity among small and midsize firms increases competition within the audit market in contrast to regulator concerns.

**"The Effect of Client Industry Agglomerations on Auditor Industry Specialization" By W. Robert Knechel and Devin Williams. *Journal of Accounting Research* 61 (5): 1771-1825.**

Prior research documents that auditors with industry expertise are able to charge a fee premium when they obtain a disproportionate share of the local market. This study examines whether auditors similarly benefit from industry agglomeration (a geographic area with high industry concentration). Results show that auditors with industry expertise in an industry agglomeration can earn a fee premium compared to industry specialists in other locations and non-specialist auditors. Additionally, auditors with easy access to another office within the same firm in an agglomerated market can earn a fee premium relative to more distant offices. This study reinforces the benefits of industry specialization and suggests a more nuanced understanding of expertise within a firm beyond local market share.

**"Audit Partners' Role in Material Misstatement Resolution: Survey and Interview Evidence" By Eldar Maksymov, Mark Peecher, Andrew Sutherland, and Joseph Weber. *Journal of Accounting Research* 62 (1): 275-333.**

The authors surveyed 462 audit partners and interviewed 24 audit partners, CFOs, and audit committee members to better understand how partners identify and resolve material misstatements (MM) in the audit. Their data reveal risk factors that affect the probability of a MM, such as a risk of a debt covenant breach or going concern, management compensation, executive personalities, ineffective internal controls, insufficient professional skepticism, time pressure, and expertise of the client and audit team. They also find that management often pushes back on correcting a MM. Reported tactics to resolve identified MMs are heavily influenced by soft factors, such as rapport with management and partner "styles". Finally, they report the consequences of MMs, including when financial statements previously audited by the partner are restated. Overall, this study provides rich details into the audit process and identifies important variables and relationships that archival and experimental research could explore to build on their findings.

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

**Sanaz Aghazadeh  
Louisiana State University**

**“Ethics in Financial Reporting Methods: The Case of Vontsira, Inc.”** By Jacob Jaggi and Jason Porter. *Issues in Accounting Education* 39 (1): 135–145.

The Current Expected Credit Losses (CECL) model serves as the backdrop for the case requirement to make decisions given accounting choices with ethical implications. Importantly, this case provides practice for advocating preferred positions in a professional setting and shows the importance of judgments in accounting.

**“Be an Expert: A Critical Thinking Approach to Responding to High-Profile Cybersecurity Breaches”** By Scott R. Boss, Joy Gray, and Diane Janvrin. *Issues in Accounting Education* 39 (1): 93–121.

Using major corporate breaches as a setting, this case tasks students with understanding breach prevention and breach response both from a company and auditor perspective.

**“Beyond GAAP: A Case Study Analyzing Non-GAAP Financial Measures and SEC Comment Letters through the Lens of the FASB Conceptual Framework”** By Kevin Hale and Rebecca J Wetmiller. *Issues in Accounting Education* 40 (1): 1–18.

To understand companies’ use of various financial disclosures, students are tasked with understanding GAAP versus non-GAAP measures by applying the FASB conceptual framework and using EDGAR to locate comment letters to help understand issues related to the disclosures.