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Report of the President

By Rick Hatfield



I hope everyone is having a great semester. I want to start by apologizing for the snarky comment in my last letter about the rest of y'all competing for second place in football (congratulations UGA). But to quote Will Rogers, "It ain't braggin if it's true." Roll Tide. *[not sure I made things better]*

I want to offer a strong thanks to the Executive Committee team, they have been doing great work for you and have been an incredible help to me. They are also a lot of fun, making long dry committee meetings enjoyable: Karla Johnstone (Past President), Kathryn Kadous (Vice-President Academic), Dan Sunderland (Vice-President Practice; Deloitte), Chad Stefaniak (Treasurer), Susan Scholz (Secretary), Mark Taylor (Historian), and Urton Anderson (Council Representative).

Auditing Section Midyear Meeting, Doctoral Consortium, and Educator's Workshop

I hope you enjoyed Portland (and a cold can of pinot noir) as much as I did, I had a time. What a cool city, and who would have thought the weather would be better than it was in Alabama. The MYM was quite unique and lived up to its theme "Thinking Smarter, Thinking Differently." While I'd like to take credit, we owe our thanks to our Co-Chairs (Tina Carpenter, Margaret Christ, and Jaime Schmidt) as well as Vice-Chairs (Ken Bills, Chan Li and Drew Reffett). Please extend thanks to these very generous volunteers for taking time away from their research to provide such a meaningful gathering. They handled 156 submissions, scheduled great research sessions, interesting panels and awesome plenary speakers (did I mention the pub crawl?). They also organized great local food, between sessions and at receptions. I had a ton of people comment to me about how much they enjoyed the food (did I mention bacon bar?).

Also, thanks to the team team of AAA professionals who expertly executed the details of the meeting on site. I owe them a debt for all the on-site help, including helping me choreograph the awards ceremony (including rehearsal) that had a lot of moving parts, they were great, and I will never forget that

moment. I am still motivated to be better teacher/researcher/person based on the testimonies about our colleague Joe Carcello at the University of Tennessee.

In addition to the events at the MYM, the Section hosted the Doctoral Consortium and the Excellence in Audit Education Workshop. Please join me in thanking Jackie Hammersley (Director) and Susan Scholz (Assistant Director) for their leadership in the Doctoral Consortium, what a great opportunity for emerging scholars to learn from senior colleagues and to begin networking among their peers. Also, please join me in thanking Sandra Shelton (Director), Helen Brown (Assistant Director), Margot Cella (Expert Practitioner Facilitator) and Dan Sunderland for their leadership in the Audit Education Workshop. The Workshop is a great resource for us to maintain currency and learn from front-line auditors how to better prepare the next generation. What a great group of practitioners we had helping us with the workshop as well as the rest of the meeting. Thanks to you all.

In case you missed it, we also had very interesting speakers: Raj Raghunathan (University of Texas) spoke on the topic, "If you're so smart, why aren't you happy" – you should get the book; Bill Kittell spoke on our theme, "Thinking Smarter, Thinking Differently" – I can't believe I forgot, did an ant-eater steamroll a phone booth that turned into a ship?; finally, Eugene Soltes (Harvard University) spoke on his topic, "Why they do it: Inside the mind of the white-collar criminal" – get the book. What an interesting collection of speakers with important, entertaining and motivating messages.

As mentioned above, we had a truly meaningful awards ceremony at lunch on Saturday. Thanks to all the committees and congratulations to all the recipients. These awards are all outlined on our web page <http://aaahq.org/AUD/Awards>.

Finally, I am happy to report that our next MYM will be held in Nashville, Tennessee. The main conference hotel is the Omni Nashville Hotel, watch the web page for the latest information. Vice-President Academic, Kathryn Kadous, will circulate a call for submissions following the AAA Annual Meeting this summer.

Committee Activities

Our committees continue their efforts 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 life-blood that keeps our section moving along and excelling.

Research and Teaching Excellence Opportunities

As you plan your research agenda, don't forget about all of the opportunities afforded you through our various partnerships. CAQ Access to Audit Personnel, CAQ Research Advisory Board Grants, AICPA Assurance Research Advisory Group, Center for Economic Analysis Fellowship opportunities, AJPT/PCAOB joint call for research. The Institute of Internal Auditors is also working on a research partnership, stay tuned.

We also have some upcoming events that I hope you will consider attending:

- The Auditing Teaching Bootcamp in June (Chicago, IL, USA),
- The PCAOB's academic conference in April (Washington, DC, USA),
- The European Accounting Association Annual Congress in May (Milan, Italy),
- The International Symposium on Audit Research in June (Maastricht, The Netherlands),
- the Accounting & Finance Association of Australia and New Zealand Conference in July (Auckland, New Zealand),
- and the AAA Annual meeting in August (Washington D.C., USA).

Annual Meeting 2017

I am looking forward to the Annual Meeting, themed "Pathways to a Sustainable Future" to be held in Washington D.C. this summer (August 4-8).

I would like to thank the Auditing Section planning committee led by Directors Sarah Rice, Adi Masli, Monika Causholli, and Chad Stefaniak, and assisted by Vice- Directors Tamara Lambert, Phil Lamoreaus, Justin Leiby, Joe Schroeder and Karen Ton. These individuals have been 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. When you see these individuals over the course of the next six months or so, please join me in thanking them for their efforts on this enormous task.

Closing Remarks

We are lucky enough to have one of the best jobs out there. A constant audience of smart and interested (mostly) students with whom we can discuss interesting and challenging issues. The freedom to create research in whatever area that is of interest to us (we get paid to think!). You are certainly an interesting and generous group of people, and I enjoy working with you to advance our Section's mission "*To Further the Discipline and Profession of Auditing and Assurance Services Through Education, Research, and Service.*"

Enjoy your Spring,

Rick Hatfield

Awards Presented at 2018 Auditing Section Midyear Conference

AJPT Best Paper Award Ryan Casey and Jonathan Grenier

(From Left: Jonathan Grenier, Presenter Doug Prawitt and Ryan Casey)



**AJPT Outstanding Service Award
Vic Naiker**

(Vic Naiker, left, and Presenter Chris Agoglia)



**Innovation in Auditing and Assurance Education Award
Veena L. Brown, Brian E. Daugherty and Julie S. Persellin**

(From Left: Veena Brown, Julie Persellin, Presenter Rick Hatfield. Not pictured: Brian Daugherty)



**Notable Contributions to Auditing Literature
Joseph Brazel, Tina Carpenter and Gregory Jenkins**

(From Left: Tina Carpenter, Joe Brazel, Presenter Mark Beasley. Not pictured: Greg Jenkins)



**Distinguished Service Award
Joe Carcello**

(Award Winner Unavailable for Photograph)

**Outstanding Educator Award
Joe Carcello**

(Award Winner Unavailable for Photograph)

**Best Paper Submitted to the Auditing Section Midyear Conference
Lori S. Bhaskar, Patrick E. Hopkins and Joseph Schroeder**

(From Left: Joe Schroeder, Lori Bhaskar, Presenter Rick Hatfield. Not pictured: Patrick Hopkins)



**Best PhD Student Paper Submitted to the Auditing Section Midyear Conference
Wei Zhang, Phillip Lamoreaux and Michael Mowchan**

(From Left: Wei Zhang and Rick Hatfield. Not pictured: Phil Lamoreaux, Michael Mowchan)



**Outstanding Auditing Dissertation and Dissertation Chair
Devin Williams and W. Robert Knechel**

(From Left: Robert Knechel, Devin Williams and Presenter Rick Hatfield)



PCAOB Standards Update

By Martin F. Baumann – PCAOB Chief Auditor, Jennifer Rand – Deputy Chief Auditor and Elena Bozhkova – Assistant Chief Auditor

Introduction

This Update addresses selected PCAOB developments since the Fall 2017 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- PCAOB Investor Advisory Group Meeting
- Economic Conference on Auditing and Capital Markets
- Cooperative Agreement with Irish Regulator
- Staff Inspection Brief Previewing 2016 Inspection Findings
- PCAOB 2018 Budget and 2017-2021 Strategic Plan
- PCAOB Standing Advisory Group Meeting
- Staff Guidance on Implementing Changes to Auditor's Report
- International Institute on Audit Regulation
- \$1.5 Million Settlement with Grant Thornton for Quality Control Violations and Audit Failures
- \$750,000 Settlement with Deloitte Turkey
- PCAOB Chairman Duhnke and Board Member Hamm Sworn in
- Announcement of Standing Advisory Group Members
- PCAOB Board Members J. Robert Brown and James Kaiser Sworn in.

PCAOB Investor Advisory Group Meeting

On October 24, 2017, the Board held a meeting of its Investor Advisory Group (IAG). At the meeting, IAG working groups presented reports to the Board summarizing their views and initiating discussions on the following topics:

- Non-GAAP measurements;
- Auditor's consideration of a client's noncompliance with laws and regulations; and
- Auditor's reporting model.

The meeting materials, including the agenda, presentations, and meeting webcast are available on the PCAOB website at:

<https://pcaobus.org/News/Events/Pages/2017-IAG-meeting.aspx>.

Economic Conference on Auditing and Capital Markets

On October 26-27, 2017, the Board's Office of Economic and Risk Analysis, in conjunction with the *Journal of Accounting Research*, held its fourth annual Economic Conference on Auditing and Capital Markets, an event that promotes academic research on the economic impact of auditing and audit regulation on capital markets.

The conference drew 140 researchers from around the world. Seven papers were chosen for presentation at the conference out of more than 80 submitted papers.

The conference agenda is available on the PCAOB website at:

<https://pcaobus.org/News/Events/Pages/2017-ERA-conference.aspx>.

Cooperative Agreement with Irish Regulator

On November 2, 2017, the Board announced a cooperative agreement with the Irish Auditing and Accounting Supervisory Authority (IAASA). The agreement allows for cooperation between the PCAOB and IAASA, including joint inspections, in the oversight of audit firms subject to the regulatory jurisdiction of both organizations.

The cooperative agreement with Ireland provides a framework for joint inspections and allows for the exchange of confidential information in accordance with applicable Irish law and the Sarbanes-Oxley Act in the United States. With this agreement, the PCAOB has executed cooperative agreements with 15 European audit regulators.

The agreement is available on the PCAOB website at:

<http://pcaobus.org/International/Pages/RegulatoryCooperation.aspx>.

Staff Inspection Brief Previewing 2016 Inspection Findings

On November 10, 2017, the PCAOB published a staff inspection brief that previews the results of 2016 inspections of auditors of public companies and other issuers.

The brief highlights certain observations from 2016 inspections, including three recurring areas where audit deficiencies were most frequently identified:

- Assessing and responding to risks of material misstatement;
- Auditing internal control over financial reporting; and
- Auditing accounting estimates, including fair value measurements.

The brief also highlights other audit areas with continued audit deficiencies, including areas affected by certain economic risks, auditing of certain financial reporting areas, audit work regarding multinational audits, and certain aspects of a firm's system of quality control. PCAOB inspectors in 2016 also

continued to explore how firms develop and use software tools in the audit and how engagement teams evaluate risks of material misstatement and related controls associated with cybersecurity.

The inspection brief is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/inspection-brief-2017-4-issuer-results.pdf>.

PCAOB 2018 Budget and 2017-2021 Strategic Plan

On November 16, 2017, the PCAOB approved its 2018 fiscal-year budget of approximately \$259.9 million and its 2017-2021 strategic plan, which serves as the foundation for the budget and guides the PCAOB's programs and operations. The 2018 budget is \$8.6 million, or 3.2 percent, less than the 2017 budget of \$268.5 million.

The total accounting support fee for 2018 is \$235.3 million, which is \$32.6 million less than the support fee in 2017. Approximately \$205.4 million of the 2018 accounting support fee is allocated to public companies and \$29.9 million is allocated to brokers and dealers.

The PCAOB budget is subject to SEC approval. Please see SEC Release No. 33-10453 (Jan. 10, 2018) approving the PCAOB 2018 budget and annual accounting support fee.

The strategic plan, and a summary of the 2018 budget, are available on the PCAOB website at:

<https://pcaobus.org/About/Administration/Pages/default.aspx>.

PCAOB Standing Advisory Group (SAG) Meeting

On November 29-30, 2017, the Board held a meeting of its SAG. The meeting covered updates on recent PCAOB developments and standard-setting activities, including discussion of projects on the PCAOB research agenda. SAG members discussed audit quality indicators, and recent rulemakings by the Financial Accounting Standards Board and their effects on audits. SAG members also heard an update on the recent project activities of the International Auditing and Assurance Standards Board.

The agenda included a panel discussion of professional skepticism and its importance to audit quality. PCAOB staff also presented for discussion an overview of comments received on three recent standard-setting proposals: auditing accounting estimates, auditor's use of the work of specialists, and supervision of audits involving other auditors.

The meeting materials, including the agenda, briefing papers, and meeting webcast are available on the PCAOB website at: <https://pcaobus.org/News/Events/Pages/SAG-meeting-Nov-2017.aspx>.

Staff Guidance on Implementing Changes to Auditor's Report

On December 4, 2017, the PCAOB published staff guidance (which was subsequently updated on December 28, 2017) that describes changes to the auditor's report that became effective for audits for fiscal years ending on or after December 15, 2017, such as the form of the auditor's report, disclosure of

auditor tenure, a statement on auditor independence, and a required explanatory paragraph on Internal Control Over Financial Reporting in certain circumstances. See SEC Release No. 34-81916 (Oct. 23, 2017) approving the PCAOB's proposed rule on the auditor's report.

The guidance also provides a high-level overview of the requirements regarding Critical Audit Matters (CAMs). Auditor communication of CAMs is permissible on a voluntary basis but will not be required until audits of fiscal years ending on or after June 30, 2019 (for audits of large accelerated filers) or December 15, 2020 (for audits of all other companies to which the requirements apply).

The PCAOB also hosted two webinars - one on December 12, 2017, and one on January 10, 2018 - on the implementation of the recent changes to the auditor's report.

The Staff Guidance (updated as of December 28, 2017) is available on the PCAOB website at: <https://pcaobus.org/Standards/Documents/Auditors-Report-Staff-Guidance.pdf>.

The slides and archived webcast of the webinars are available on the PCAOB website at: <https://pcaobus.org/News/Events/Pages/default.aspx>.

International Institute on Audit Regulation

On December 7-8, 2017, the PCAOB hosted its 11th annual International Institute on Audit Regulation, discussing a variety of topics, including key international developments, trends in initial public offerings, audit firm culture, technology and data analytics, financial fraud and auditors, and investor and director perspectives on auditing. Nearly 75 officials from audit regulators in 39 non-U.S. jurisdictions, as well as 10 officials from seven international organizations, attended the Institute.

The Institute featured panel discussions among audit regulators, academics, investor representatives, and corporate governance experts from jurisdictions around the world on a number of topics, including key international developments; coordination among audit regulators; firm culture, auditor behavior and professional skepticism; financial fraud and the evolution of firms and its impact on inspections. In addition, a panel of investors and corporate governance experts provided their perspectives on the role of auditors in protecting investors and on important priorities for audit regulation.

\$1.5 Million Settlement with Grant Thornton for Quality Control Violations and Audit Failures

On December 20, 2017, the PCAOB announced a \$1.5 million civil penalty and censure against Grant Thornton LLP for violations of quality control standards and for audit failures. The quality control violations were in connection with the firm's assignment, support, and monitoring of two engagement partners on 2013 audits performed in the financial services practice based in Philadelphia.

The Board also found that, in one of those audits, the 2013 audit of The Bancorp, Inc., Grant Thornton violated PCAOB auditing standards. The PCAOB also sanctioned David M. Burns, a former Grant Thornton partner, who served as the engagement partner for the 2013 Bancorp audit, for his violations of PCAOB auditing standards in that audit.

The disciplinary order is available on the PCAOB website at:

<https://pcaobus.org/Enforcement/Decisions/Documents/105-2017-054-GT-Bancorp.pdf>.

\$750,000 Settlement with Deloitte Turkey

On December 20, 2017, the PCAOB announced that Deloitte Turkey will pay a \$750,000 civil money penalty to settle charges that it devised and implemented a plan to improperly alter documents in advance of a PCAOB inspection in 2014.

The PCAOB also charged the firm with violating quality control and ethics standards relating to performing professional responsibilities with integrity, as well as audit documentation standards. Two former Deloitte Turkey partners, including the firm's former national professional practice director, also were sanctioned for their involvement in the misconduct.

The disciplinary order is available on the PCAOB website at:

<https://pcaobus.org/Enforcement/Decisions/Documents/105-2017-050-DRT.pdf>.

PCAOB Chairman Duhnke and Board Member Hamm Sworn in

On January 2, 2018, the PCAOB announced that William D. Duhnke III was sworn in as Chairman and Kathleen M. Hamm was sworn in as a Board member. *See also* SEC Press Release *SEC Appoints New Chairman and Board Members to PCAOB* (Dec. 12, 2017) announcing the appointment of William D. Duhnke III as Chairman and J. Robert Brown, Kathleen M. Hamm, James G. Kaiser, and Duane M. DesParte as Board members of the PCAOB.

The new Board members' biographies are available on the PCAOB website at:

<https://pcaobus.org/About/Board/Pages/default.aspx>.

Announcement of Standing Advisory Group Members

On January 12, 2018, the PCAOB announced six new and eight re-appointed members to its SAG, bringing total SAG membership to 34. The PCAOB also announced that it has scheduled two SAG meetings in 2018: June 5-6 and November 28-29.

A list of SAG members, including their biographies, is available on the PCAOB web site at:

<https://pcaobus.org/Standards/SAG/Pages/Current.aspx>.

PCAOB Board Members J. Robert Brown and James Kaiser Sworn in

On February 1, 2018 and March 1, 2018, the PCAOB announced that J. Robert Brown and James Kaiser, respectively, were sworn in as Board members.

Board Member Brown's and Board Member Kaiser's biographies are available on the PCAOB website at:

<https://pcaobus.org/About/Board/Pages/default.aspx>.

AICPA Auditing Standards Board Update

By Steve Glover

Brigham Young University and Auditing Standards Board Member

Exposure Drafts Open for Comments

At the drafting of this update, the following standards were out for exposure with a comment due date of May 15, 2018:

- Proposed Statement on Auditing Standards, *Omnibus Statement on Auditing Standards—2018*
- Proposed Statement on Auditing Standards, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*
- Proposed Statements on Auditing Standards, *Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*.

Updates from the October 2017 and January 2018 ASB Meetings

Selected Procedures

This is a joint project with the Accounting and Review Services Committee. The ASB discussed comments received on the public exposure of the proposed SSAE. The ASB agreed with revising AT-C section 215 rather than issuing a separate stand-alone SSAE. The revision of AT-C section 215 to include selected procedures will likely avoid issues with state regulations that specifically refer to agreed-upon procedure engagements in accordance with the AICPA’s attestation standards. The ASB discussed the proposed revision to require that the engaging party acknowledge that the procedures are appropriate for their intended purpose and directed that the Task Force consider the issue of *sufficiency vs. appropriateness* of procedures and bring a recommendation to the ASB at their May 2018 meeting. There is still some disagreement on the board regarding including a rebuttable presumption that the agreed-upon procedures report would be restricted as to use but provide circumstances for exceptions so that the practitioner could issue a general-use report. The Task Force will consider alternatives and bring recommendations to future meetings.

Reporting on ERISA Plan Financial Statements

The ASB discussed the feedback from the comments letters received in response to the exposure draft *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. The ASB suggested re-characterizing the concept of an ERISA-permitted scope limitation to something that better describes these engagements like “ERISA section 103 engagement,” to reduce confusion around scope limitations. The ASB asked the Task Force to consider whether there is a need for further guidance around the appropriate level of materiality for such audits as well as whether guidance or a requirement that Form 5500 be obtained prior to the issuance of the auditor’s report.

Direct Engagements

The ASB discussed revisions to AT-C sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*; 210, *Review Engagements* and; 215, *Agreed Upon Procedures Engagements*, that would enable practitioners to perform examination, review, and agreed-upon procedures engagements without having to request a written assertion from the responsible party.

The task force's proposed revisions to AT-C sections 105, 205 and 210 eliminate the current requirement for the practitioner to request an assertion from the responsible party in examination and review engagements. Instead, the practitioner would be required to request a written representation from the responsible party stating whether the responsible party has measured or evaluated the subject matter against the criteria and, if so, the results of that measurement or evaluation. The request for written representation would not be required in circumstances where the responsible party is not measuring the subject matter (similar to Direct Engagements under the ISAs). The ASB agreed with Task Force proposal that the term *review* be replaced with the term *limited assurance* throughout the AT-C sections to more closely harmonize with *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The ASB discussed that further outreach would be necessary to evaluate the potential consequences of this change.

Estimates

The chair of the IAASB Estimates Task Force provided an update to the ASB on the IAASB's project to revise ISA 540, based on the responses received to the IAASB's *Exposure Draft: Proposed International Standard on Auditing (ISA) 540 (Revised), Auditing Accounting Estimates and Related Disclosures (ED 540)*. The ASB expressed support for the project and provided feedback on issues of particular concern. Key points discussed included the relationship to ISA 315 (risk assessment), application guidance, retrospective review (when and how guidance needed); and scalability/prescriptiveness of requirements. The Task Force expects a final standard to be approved at the June 2018 IAASB meeting.

Have you Seen...?

**Tamara Lambert, Lehigh University
Stephen Fuller, Suffolk University
James D. Whitworth, University of South Florida**

“Improving Experienced Auditors’ Detection of Deception in CEO Narratives.” By Jessen Hobson, William Mayew, Mark Peecher and Mohan Venkatachalam. *Journal of Accounting Research* 55(5): 1137-1166.

This study investigates the ability of highly experienced auditors to detect deception in CEO narratives during quarterly earnings conference calls. In addition, the authors explore whether a simple intervention instructing auditors to look for signs of cognitive dissonance in a CEO’s narrative might improve auditors’ performance in this task. The authors conducted an experiment in which thirty-one auditors each reviewed CEO narratives for 4 companies randomly varied between fraudulent and non-fraudulent in nature. Roughly half of the participants were instructed to beware of signs of cognitive dissonance in the CEOs’ narratives, which might serve as deception cues. After reviewing each narrative, the auditors classified the company as either fraudulent or non-fraudulent, described red flags in the event of an identified fraud, and identified specific fraudulent statements, if any, within the narrative. The authors found that auditors performed much better than random chance in correctly identifying non-fraudulent companies. However, for fraudulent companies, only auditors receiving the instruction to beware of cognitive dissonance in the CEO narratives performed better than random chance. Auditors receiving the instruction also described fraud red flags and identified fraudulent statements more effectively.

“Neutral and Presumptive Doubt Perspectives of Professional Skepticism and Auditor Job Outcomes.” By Jeffrey Cohen, Derek Dalton and Nancy Harp. *Accounting, Organizations and Society* 62: 1-20.

This study explores the effect of auditor professional skepticism traits on career outcomes of auditors. Specifically, the authors highlight certain traits related to the two predominant perspectives on skepticism identified in auditing research – the neutral perspective and the presumptive doubt perspective. The neutral perspective focuses on the need for critical evaluation of evidence with no prior belief regarding management’s bias, whereas the presumptive doubt perspective allows for the likelihood that management is biased in its reporting. Using a survey of 176 auditors, the authors investigate how auditors who measure higher in traits associated with each perspective perceive they are supported by partners and their firm, and what their intentions are with regard to the firm. The authors predicted and found that auditors higher on the presumptive doubt scale perceive lower partner and firm support of their skepticism, likely due to concerns over audit efficiency, which led to less favorable career outcomes (e.g., increased turnover intention). Auditors who scored higher on the neutral perspective scale perceived higher partner and firm support for their skepticism, and generally expressed optimism for more favorable career outcomes.

“The Occurrence and Awareness of a Misstatement Effect in Auditors’ Internal Control Severity Judgments.” By Stephen Asare, Barbara Majoor and Arnold Wright. *International Journal of Auditing* 21(3): 225-236.

This study investigates whether auditors' internal control severity assessments are subject to a "misstatement effect," wherein deficiencies are assessed as more severe if they are accompanied by an immaterial misstatement in the related accounts. The authors further explore whether or not the misstatement effect is unconscious. Normatively, the misstatement effect should not occur as auditing standards require that auditors focus on what *could* go wrong rather than what *did or did not* go wrong in financial statements when judging the severity of an internal control deficiency. The authors conduct two experiments with experienced auditor participants to address their questions. First, they replicate prior findings of a misstatement effect in severity assessment using a between subjects design, where they manipulate the presence or absence of an immaterial misstatement. Next, the authors conduct a within-subjects experiment to explore whether the misstatement effect is unconscious. Participants are presented with the same control deficiency in two scenarios, with and without an immaterial misstatement. Such a design allows for a conscious consideration of whether the misstatement should impact the severity assessment. Results suggest that the misstatement effect is unconscious as auditors did not rate the severity of the assessments differently based on the presence of a misstatement in this experiment. The authors recommend that auditors employ interventions that stress what misstatements could occur when evaluating a deficiency that has not led to a misstatement.

"The Consequences of Audit-Related Earnings Revisions." By Jacob Haislip, Linda Myers, Susan Scholz and Timothy Seidel. *Contemporary Accounting Research* 34(4): 1880-1914.

The authors examine ex post consequences of earnings announcements that predate audit completion to auditors and companies, when those earnings announcements are subsequently revised or proven incorrect by the 10-K. The find evidence that such occurrences put a strain on the auditor-client relationship. Specifically, they find a greater likelihood of auditor dismissal following the revised earnings announcement, particularly when the revision results in the company missing a key benchmark, or when the local audit market is more competitive. For companies that do not dismiss their auditor following an earnings revision, when the revision is negative, future audit fees are lower, consistent with price concessions by the auditor. Additionally, CFO turnover increases as revision magnitude increases for companies with earnings-decreasing revisions.

"Audit Office Reputation Shocks from Gains and Losses of Major Industry Clients." By Jere Francis, Mehir Mehta and Wanli Zhao. *Contemporary Accounting Research* 34(4): 1922 – 1974.

This study considers the effects of losing and gaining a significant client within a given industry on the auditor's local office. Interestingly, the authors find a snowball effect for both losing and gaining a major client, where the loss (gain) of a major industry client is associated with subsequent losses (gains) of other clients in the same industry. This dynamic continues with audit fees, as the loss (gain) leads to the local office losing (gaining) industry leadership within the local area, impacting audit fees. There is also a capacity constraint effect on the local office, as gaining (losing) a major client is associated with lower (higher) audit quality for other same-industry clients, particularly among smaller offices where a capacity effect is likely to be more severe.

"Do PCAOB Inspections Improve the Quality of Internal Control Audits?" By Mark Defond and Clive Lennox. *Journal of Accounting Research* 55(3): 591-627.

The authors consider the effect of PCAOB inspections on internal control audits. They find that, despite the auditing profession's criticism of inspections as ineffective, auditors appear to respond to PCAOB

reports of higher rates of deficiencies in internal control audits by increasing their issuance of adverse internal control reports. Further, more adverse internal control opinions are issued to clients with concurrent misstatements, i.e. those with an ex post confirmation of the weakness in their internal control. The authors also find that audit fees increase with higher inspection deficiency rates, suggesting that auditors are responding to more critical PCAOB inspections by remediating deficiencies in their audits of internal control.

Have You Seen...These Educational Resources?

Marsha Keune, University of Dayton, Chair

Patricia Johnson, State University of New York at Fredonia, Vice Chair

Penelope Bagley, Appalachian State University

“Introductory Audit Homework Handouts: A Bridge from Class to Auditors’ Professional Responsibilities.” By James Hansen. *Current Issues in Auditing* 11 (2): 11-121.

This case provides 3 homework handouts to be completed throughout the semester for undergraduate or graduate auditing classes to help bridge class material to real world situations. The handouts focus on auditor switches, independence, ethical dilemmas, and PCAOB inspection reports.

“The Roslyn School District Fraud: Improving School District Internal Control and Financial Oversight.” By Randall Elder and Alfred Yebba. *Issues in Accounting Education* 32 (4): 24-39.

The Roslyn School District Fraud had lasting implications for reporting by and auditing of school districts in New York State. This case studies the \$11 million embezzlement of school district tax funds. The elements of the fraud triangle are discussed along with the impact of the fiscal reform legislation that followed the discovery of the fraud on reporting quality.

“Toomer's Energy Drinks: Fueling Earnings Management?” By James Long, Lasse Mertins, DeWayne Searcy and Brian Vansant. *Issues in Accounting Education* 33 (1): 29-43.

This case presents a scenario on the topic of earnings management. A company discovers that it will fall short of meeting some of its short term goals. Students must evaluate the techniques under discussion and determine whether they are ethical by applying the AICPA Code of Professional Ethics in a realistic scenario.

“Two Short Case Studies in Staff Auditor and Student Ethical Decision Making.” By Christine Cheng and Renee Flasher. *Issues in Accounting Education* 33 (1): 45-52.

These case studies involve ethical decision making, encouraging students to “give voice to values.” Students get practice in recognizing and resolving ethical dilemmas, including one dealing with an impending PCAOB inspection.

“Sprandel, Inc.: Electronic Workpapers, Audit Documentation, and Closing Review Notes in the Audit of Accounts Receivable.” By Lindsay Andiola, Tamara Lambert and Edward Lynch. *Issues in Accounting Education*, In-Press.

This case provides closing review notes for the audit of accounts receivable. Students perform procedures related to both internal controls and substantive testing. Excel is used for the electronic

workpaper component. Students have the opportunity to exercise professional skepticism and develop their critical thinking skills.

“Fraud Risk Brainstorming at Tesla Motors.” By Megan Hess and Lindsay Andiola. *Issues in Accounting Education*, In-Press.

In this case, students have the opportunity to explore the fraud risk assessment process in the context of a well-known company, Tesla. A simulated brainstorming session is included, along with both individual and group activity components. Students also get to develop the audit procedures to be performed based on the results of the fraud risk assessment.

‘CVS Pharmacy: An instructional Case of Internal Controls for Regulatory Compliance and IT Risks.’ By Ken Guo and Brenda Eschenbrenner. *Journal of Accounting Education*, 42: 17-26.

CVS Pharmacy failed to implement necessary controls to comply with regulations around the sales of pseudoephedrine. This case gives students the opportunity to apply both the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (May 2013) and the COBIT 5 Framework issued by ISACA. The frameworks can be used to identify internal control deficiencies, compliance risk and IT risks. Students make recommendations for control measures based on their assessment.

“LDC Cloud Systems Case Study.” Center for Audit Quality. *Anti-Fraud Collaboration*. 2018.

This case deals with a bribery allegation and the role of board oversight in the organization. How a fraud unfolds as well as the management and board response to the discovery are discussed in detail.

“Treasury-Confirmations.” KPMG. 2018.

This case provides students with the opportunity to perform substantive procedures around the audit of cash, specifically the bank confirmation process. The students go through the procedures necessary to confirm account balances and determine the necessary follow-up on the responses received. Materials are also provided introducing students to this area of the audit.

“Inventory Analysis Case Study.” PwC. 2018.

This case provides students with a large data set that can be used to learn data preparation, data discovery, and data visualization techniques. In addition, statistical analysis can be performed. Available at:

<https://www.pwc.com/us/en/careers/university-relations/data-and-analytics-case-studies.html>

Journal of Information Systems Conference

4th Journal of Information Systems Research Conference

CALL FOR PAPERS

The Journal of Information Systems (JIS) of the American Accounting Association will hold the 4th JIS Research Conference (JISC-2019) in conjunction with the Joint Midyear Meeting of the AIS and SET Sections in San Antonio, TX on January 10-12, 2019. Both JISC-2019 and the Joint Midyear Meeting are being generously sponsored by KPMG.

JIS is the research journal of the Accounting Information Systems (AIS) Section of the American Accounting Association (www.jisonline.com). JIS is now in its 32nd year of publication. The 2016 CiteScore is 2.26 on SCOPUS.

Topics and Research Methodologies

Original academic papers addressing a wide range of issues related to accounting information systems and information technology will be considered. All research methodologies are welcome, including experimental, qualitative, field study, analytical, behavioral, archival, design science, and empirical.

Paper submission

Papers to be considered for this conference should follow the JIS editorial policy and be submitted to JIS using the AAA's manuscript management system. Full details are available at www.jisonline.com. Papers accepted to JISC-2019 will also receive a strong consideration for acceptance to JIS. Research teams are expected to improve their papers following the guidance from the academic and practitioner reviewers and from the interaction at the conference. Recognition of the paper's inclusion at the JISC-2019 will be noted if the paper ultimately reaches publication. Papers not accepted for the conference will continue to receive editorial review by JIS and the Midyear Meeting research paper Chair. There is an option for remote teleconference presentation by international authors of accepted papers who are unable to attend the conference in person. In cases of hardship, authors may petition JIS editors for possible waiving of the JIS submission fee.

Deadlines

The deadlines for JISC-2019 are:

- Wednesday, August 1, 2018: Research papers due.
- Thursday, January 10 – Saturday, January 12, 2019: JIS Research Conference 2019.
- Saturday, June 1, 2019: Revised papers due.

Inquiries may be made to JISC-2019 Co-Editors Rob Pinsker rpinsker@fau.edu and Jennifer Riley jenriley@unomaha.edu.

Critical Perspectives on Accounting
Critical Auditing Studies: Adopting a Critical Lens Toward
Contemporary Audit Discourse, Practice and Regulation
Special Edition
Call For Papers

This special issue provides an opportunity to engage in a critically-flavored yet constructive debate about auditing and the direction it is taking. We invite manuscripts that focus on a wide range of issues and concerns, including, among other things, the following:

- Consequences of the rise of audit firms' commercialism.
- Ongoing changes in regulatory approaches to auditing.
- Claims about auditors' knowledge base.
- Auditing and the public interest.
- Shifting identities.
- Control and surveillance within accounting firms.

In sum, while its foundations date back to the turn of the 1990s, we believe that critical audit research now constitutes a particularly promising domain, offering a variety of meaningful and socially important matters to investigate. Broadly speaking, there is a significant need to better understand how auditing constitutes a reinforcing and facilitating platform for certain forms of power to be exerted in society, and how auditing itself is subject to different forms of power dynamics. We are also interested in the empirical and conceptual work contemplating the future of the audit function, particularly at a time when the occupation's jurisdictional base is often viewed as being in the process of eroding, notably as a result of "advances" in information technology.

We are open to a variety of investigative methods – critical discourse analysis, case studies, ethnographical work, archival studies, among others – as long as the authors are committed to a critical perspective. We are also interested in receiving substantive essays – crafted also from a critical perspective. As maintained by Gabriel (2016, p. 244), essay writing should not be neglected as a knowledge development mechanism: "The essay gives a voice to an author's creative imagination, enabling him or her to critique assumptions that are rarely questioned and explore new possibilities for intellectual and social change." Essays, in particular, may be based on autobiographical data and they may be quite powerful at developing in-depth understandings (Haynes, 2006). In highlighting the relevance of essays, we hope that a number of practitioners and stakeholders will be inclined to write a piece and submit it to the special issue. Thus, one of our objectives through this special issue is to set a platform for a meaningful conversation to take place among people concerned with auditing as a prominent socio-organizational phenomenon.

Preliminary workshop

A workshop will be held at Alliance Manchester Business School, University of Manchester in September 2018. Authors wishing to present at the workshop should contact Anna Samsonova-Taddei (anna.samsonova-taddei@manchester.ac.uk) by July 1, 2018. Authors of selected papers from the workshop will be invited to submit revised papers for this special issue, subject to the journal's normal review processes.

Submission process

Attendance and/or presentation at the workshop is not a pre-requisite for submission to the special issue. The closing date for submissions to this special issue is **March 29, 2019**.

Manuscripts should be submitted electronically via <https://www.journals.elsevier.com/critical-perspectives-on-accounting>. The guest editors welcome enquiries from those who are interested in submitting. All papers will be reviewed in accordance with the normal processes of *Critical Perspectives on Accounting*. It is anticipated that this special issue will be published in 2021.

Editors for this special issue are Anna Samsonova-Taddei, Alliance Manchester Business School, University of Manchester and Yves Gendron, Faculté des sciences de l'administration, Université Laval, Québec City, Québec. Any queries or enquiries about the special issue should be directed to Anna Samsonova-Taddei at anna.samsonova-taddei@manchester.ac.uk.