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Report of the President

By Karla Johnstone



Let me begin by thanking my Executive Committee team, with whom I have enjoyed my experience as President of the Section. I could not accomplish my duties without their whole-hearted assistance and excellent advice: Chris Hogan (Past President), Rick Hatfield (Vice-President Academic), Dan Sunderland (Vice-President Practice; Deloitte), Keith Jones (Treasurer), Susan Scholz (Secretary), Mark Taylor (Historian), and Urton Anderson (Council Representative).

These individuals work year-round to keep the Section running, including arriving a day early at both the Annual and Midyear Meetings to contribute to a half-day Executive Committee Meeting. All their required tasks result in a significant commitment of time, so please join me in expressing a collective 'thank you' for their efforts!

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

It was wonderful to see many of you at the Auditing Section's Midyear Meeting (MYM) in Orlando, Florida! The MYM was a great success, thanks in large part to our Co-Chairs (Noel Harding and Ling Lisic) and Vice-Chairs (Tina Carpenter, Margaret Christ, and Jaime Schmidt). Please extend thanks to these very generous volunteers for taking time away for their research to help many of you gain networking opportunities and research visibility. The Chairs processed 216 submissions to the Meeting (yes, that equates to having to wrangle countless authors and 432 reviewers ... *not a task for the faint of heart*). Thank you, Chairs, and thank you Reviewers and other Volunteers, for making the MYM once again a wonderful opportunity to learn from other scholars, leverage a venue to work with our co-authors, and engage with leading practitioners. Finally, a team of AAA professionals expertly executed the details of the meeting on site. I owe them a debt as they kept all the last-minute decisions to a minimum and helped me resolve a variety of last-minute challenges, large and small!

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 Linda Myers (Director) and Jackie Hammersley

(Assistant Director) for their leadership in the Doctoral Consortium, which is a critical 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), and Margot Cella (Expert Practitioner Facilitator) for their leadership in the Audit Education Workshop. The Workshop is incredibly helpful in providing a yearly platform from which we can all gather to ensure that our teaching is 'fresh' and 'practice driven', two attributes that I believe are fundamental to teaching excellence in our discipline. Finally, I hereby express my sincere gratitude to our friends in practice and our academic colleagues who are at the forefront in terms of auditing education excellence. I was inspired to see all the enthusiastic leaders and participants at the Workshop.

On Friday morning of the MYM, our Plenary Speaker was Scott Marcello from KPMG, the primary sponsor of the meeting. As always, we owe a great debt to the Firm, both in terms of monetary support for our meetings, but also for access to their personnel for our research, as well as active support in terms of understanding and promoting the value of academic research in accounting and auditing. Thank you, KPMG Foundation! Scott's talk was titled "A Professional Update: Learning, Regulations, and Politics". Anyone who had the opportunity to learn from Scott's insights can tell you that he touched on a wide range of important, emerging topics that are affecting the auditing profession, as well as our Section. I am grateful that Scott was gracious enough to spend his valuable time with us. Thank you, Scott!

On Saturday morning of the MYM, our Plenary Speakers included the PwC assurance team leaders for the Walt Disney Company (Partner Chris Bourdon and Assurance Manager Kristin Benton), along with senior executives at Disney (Tracy Willis, VP Segment Controller for Disney Parks and Resorts, and Gary Hansen, Senior Vice-President of Disney's Worldwide Shared Services Center). Their presentation began with a 'sizzle reel' (see <https://www.youtube.com/watch?v=HGKNTuFPvcc>) that everyone present seemed to enjoy. Afterwards, the speakers discussed their experiences in a Plenary titled "The Disney Audit: Views from PwC and Top Financial Experts within Disney". A significant focus of their remarks focused around the notion of "brand", and the critical importance of it to the organization's success. This was a very memorable plenary, and I enjoyed tying in the theme of the Plenary with the city location in Orlando.

As is our tradition, we also recognized a number of our members at the luncheons on Friday and Saturday from doctoral students to long-time contributors to the Auditing Section. Please join me in thanking the award committee chairs and members who invested their time and thoughtfully considered the nominees. Also, consider reviewing the newsletter for the complete list of award winners and their photos (Thanks, Julia Higgs, for being our awesome Section photographer!). I am very impressed with the successes and accomplishments of our amazing members, from the young scholars receiving, e.g., the Outstanding Dissertation Award (Emily Griffith), to our long-standing leaders who received awards recognizing their devotion and research excellence, e.g., the Outstanding Educator Award (Jeff Cohen) and the Distinguished Service Award (Jean C. Bedard). Well done, everyone!

Finally, I am happy to report that our next MYM will be held in beautiful Portland, Oregon. The main conference hotel is the Hilton Portland & Executive Tower (<http://www3.hilton.com/en/hotels/oregon/hilton-portland-and-executive-tower-PDXPHHH/index.html>). Vice-President Academic, Rick Hatfield, 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. The Auditing Standards Committee (led by Pamela Roush), continues to respond to proposed standards or other calls for responses by summarizing and highlighting the insights from our collective research. The Research Committee (led by Carol Callaway Dee) and Communications Committee (led by James Long), among other activities, continue to bring us tweets of research summaries from our continually-updated database. We appreciate their efforts to summarize and highlight our research. Check out the research summaries database at www.AuditingResearchSummaries.org and please follow us on Twitter at @AuditResearch. Please join me in thanking Jennifer Mueller-Phillips for her ongoing efforts to populate and publicize the database, and to James Long as Chair of the Communications Committee in leading this effort. Please join me in thanking the other Committee Chairs that lead a variety of initiatives for the Section:

- AICPA Accounting Research Advisory Group – Mike Wilkins, Randy Elder, and Joe Brazel,
- Membership and Regional Committees – Benjamin Luippold,
- Auditor's Report – Larry Abbott, assisted by Tamara Lambert,
- Education – Edward Douthett, Jr.,
- CAQ Access to Audit Personnel Program – Margot Cella, Jackie Hammersley, Jennifer Joe, Mark Peecher, Doug Prawitt, Chris Agolia, and Ken Trotman, with Bill Messier graciously agreeing to join the team for the 2017/18 cycle.

Each of these committees have Vice-Chairs and committee members, and while space limits identifying all of these helpful and invaluable volunteers, I thank you for your excellent and selfless service to our Section.

Research and Teaching Excellence Opportunities

Over the past several months, we have shared many opportunities through calls for submissions for conferences, calls for submissions to the Center for Audit Quality Access to Audit Personnel Program and the Research Advisory Board Grant Program, as well as for applications for the Center for Economic Analysis Fellowship opportunities. I hope that you have taken advantage of many of these opportunities.

We are fortunate in the Section that we have two journals as outlets for our research. *Auditing: A Journal of Practice and Theory*, under the leadership of Senior Editor Jeff Cohen, continues to be a premier journal worldwide. In addition, *Current Issues in Auditing*, under the leadership of Co-Editors Greg Jenkins and Dan Sunderland is "...devoted to advancing the dialogue between academics and

practitioners on current issues facing the auditing practice community.” With that goal in mind, CIIA publishes a variety of article types including research articles, commentaries, practitioner-focused summaries of previously published articles, instructional resources, and point/counterpoint thought pieces. I encourage you to consider both *Auditing: A Journal of Practice and Theory* and *Current Issues in Auditing* as outlets for your research and ideas.

I hope that you are able to participate in some important upcoming events that many of you will be 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 (Valencia, Spain),
- the International Symposium on Audit Research in June (Sydney, Australia),
- the Accounting & Finance Association of Australia and New Zealand Conference in July (Adelaide, Australia),
- and the AAA Annual meeting in August (San Diego, CA, USA).

Annual Meeting 2017

I am looking forward to the Annual Meeting, and the “Imagining our Future,” to be held in San Diego, California this summer from August 5th through 9th. I would like to thank the Auditing Section planning committee led by Directors Brian Bratten, David Wood, and Nate Stephens, and assisted by Vice-Directors Sarah Rice, Adi Masli, Monika Causholli, and Chad Stefaniak. 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. I am grateful that they are willing to accept this assignment with positive energy and a commitment to detail and fairness.

Closing Remarks

In closing, what strikes me about the Auditing Section is the positive energy and opportunities for networking that each of you bring to the table. I am very grateful to be leading a Section that consists of really wonderful colleagues and friends. Please join me in further our Section’s mission, which is “*To Further the Discipline and Profession of Auditing and Assurance Services Through Education, Research, and Service.*”

Best wishes,

A handwritten signature in black ink that reads "Karla M. Johnstone". The signature is written in a cursive, flowing style.

Karla M. Johnstone

Awards Presented at 2017 Auditing Section Midyear Conference

AJPT Best Paper Award Bertrand Malsch and Marie Soleil-Tremblay

(From Left: Bertrand Malsch, Presenter Jeff Cohen and Marie Soleil-Tremblay)



**AJPT Outstanding Service Award
Lisa Gaynor and Kim Westermann**

(Lisa Gaynor, left, and Kim Westermann)



Innovation in Auditing and Assurance Education Award
Mahendra Gujarathi

(Award winner unavailable for photo)

Notable Contribution to Auditing Literature Award
W. Robert Knechel and David C. Hay

(Robert Knechel, left, and David Hay)



Distinguished Service Award
Jean Bedard

(Presenter Karla Johnstone, left and Jean Bedard)



Outstanding Auditing Educator Award
Jeff Cohen

(Jeff Cohen, left, with Presenter Chris Hogan)



**Best Midyear Auditing Section Meeting Paper Award
Nicole Thorne Jenkins, Monika Causholli and Scott Soltis**

(From left: Nicole Thorne Jenkins, Monika Causholli and Scott Soltis)



Best Phd Student Paper Award
Michael Ricci

(Presenter Ling Lisic, left, and Michael Ricci)



**Outstanding Dissertation and Dissertation Chair Awards
Emily Griffith and Jackie Hammersley**

(Outstanding Dissertation Award Winner, Emily Griffith, and Dissertation Chair, Jackie Hammersley unavailable for photo)

**Outstanding Leadership, Initiative and Service Award
Jay Thibodeau**

(Presenter Chris Hogan, left, and Jay Thibodeau)



Outstanding Service as Co-Director of Annual Meeting Program Award
Barbara Grein

(Presenter Chris Hogan, left, and Barbara Grein)



Outstanding Service as Vice-President of Practice Award
Steve Meisel

(Presenter Chris Hogan, left, and Steve Meisel)



Outstanding Service as Section Historian Award
D. Scott Showalter

(Presenter Chris Hogan, left, and Scott Showalter)



Auditing Section Midyear Meeting Co-Chair Awards
Ling Lisic and Noel J. Harding

(Ling Lisic, left, and Noel J. Harding)



**2017 Excellence in Accounting Education Workshop Director
Sandra Shelton**

(Sandra Shelton, pictured at left, with Karla Johnstone)



PCAOB Update

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

Introduction

This Update addresses selected PCAOB developments since the Fall 2016 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Cooperative Agreement with New Finnish Regulator,
- Economic Conference on Auditing and Capital Markets,
- PCAOB Investor Advisory Group Meeting,
- Cooperative Agreement with Italian Regulator,
- PCAOB Standing Advisory Group Meeting,
- Settled Disciplinary Orders with Deloitte Brazil and Deloitte Mexico,
- International Institute on Audit Regulation,
- Announcement of Standing Advisory Group Members,
- Standard-setting Update,
- Settled Disciplinary Order with Ernst & Young Indonesia.

PCAOB Developments

Cooperative Agreement with New Finnish Regulator

On October 17, 2016, the Board announced a cooperative agreement with the Finnish Patent and Registration Office (PRH), effective immediately. The agreement allows for cooperation between the PCAOB and the PRH in the oversight of audit firms subject to the regulatory jurisdictions of both regulators.

In 2013, the PCAOB entered into a cooperative agreement with the predecessor to the PRH, the Auditing Board of the Central Chamber of Commerce of Finland (AB3C). In January 2016, the AB3C was replaced by the PRH as the independent audit regulator in Finland.

The agreement with the PRH provides a framework for joint inspections and allows for the exchange of confidential information in accordance with applicable Finnish law and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 in the United States. An agreement on data protection also is part of the cooperative arrangement with PRH. These agreements are consistent with the prior agreements between the PCAOB and the AB3C.

The agreements are available on the PCAOB website at:

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

Economic Conference on Auditing and Capital Markets

On October 23-24, 2016, the Board's Center for Economic Analysis, in conjunction with the Journal of Accounting Research, held its third annual Economic Conference on Auditing and Capital Markets, an event promoting academic research on the economic impact auditing has on capital markets.

The conference was attended by more than 120 researchers from around the world. Participants heard presentations and discussions on six working papers, selected out of 83 submitted papers.

The conference agenda is available on the PCAOB website at:

<https://pcaobus.org/News/Events/Pages/2016-CEA-conference.aspx>.

PCAOB Investor Advisory Group Meeting

On October 27, 2016, the Board held a meeting of its Investor Advisory Group (IAG). Topics that working groups of the IAG presented to the Board included:

- Current issues with the reporting of non-GAAP measurements,
- Status of recommendations from the Treasury Department's Advisory Committee on the Auditing Profession,
- Auditor's reporting model.

The meeting materials, including the agenda, presentations, and meeting webcast and podcast are available on the PCAOB website at: <https://pcaobus.org/News/Events/Pages/2016-IAG-meeting.aspx>.

Cooperative Agreement with Italian Regulator

On November 29, 2016, the Board announced a cooperative agreement with the Italian audit oversight regulator Commissione Nazionale per le Società e la Borsa (CONSOB). The agreement allows for cooperation between the PCAOB and CONSOB in the oversight of audit firms subject to the regulatory jurisdictions of both regulators.

The agreement with CONSOB provides a framework for joint inspections and allows for the exchange of confidential information in accordance with applicable Italian law and the Sarbanes-Oxley Act in the United States. An agreement on data protection also is part of the cooperative arrangement with CONSOB.

The agreements are available on the PCAOB website at:

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

PCAOB Standing Advisory Group (SAG) Meeting

On November 30-December 1, 2016, the Board held a meeting of its SAG. SAG members were briefed on a post-implementation review program recently launched by the PCAOB's Center for Economic Analysis that is studying the overall effects of previously adopted PCAOB rules and standards. The agenda also included a panel discussion on effective interactions between auditors and audit committees.

Additionally, updates were provided on recent PCAOB inspection activities and the Board's April 2016 proposal on the supervision of audits involving other auditors. Discussions were also held on PCAOB developments and standards-related projects, including projects added to a research agenda developed as an outcome of the standard-setting review discussed with the SAG in May 2016.

The meeting materials, including the agenda, briefing papers, and meeting webcast and podcast are available on the PCAOB website at: <https://pcaobus.org/News/Events/Pages/SAG-meeting-November-2016.aspx>.

Settled Disciplinary Orders with Deloitte Mexico and Deloitte Brazil

On December 5, 2016, the Board announced settlements with Deloitte Brazil and Deloitte Mexico. Deloitte Mexico was censured and will pay a \$750,000 civil penalty for failing to effectively implement quality control policies and procedures for audit documentation. From 2011 to 2015, Deloitte Mexico failed to archive audit documentation of numerous public company audits within 45 days of the audit report release date in violation of PCAOB requirements. The firm also violated PCAOB quality control standards by failing to effectively implement policies and procedures to ensure the timely archiving of audit documentation by its engagement teams.

Two former Deloitte Mexico partners and another former auditor also were sanctioned for violations including audit deficiencies and improper alteration of work papers on a 2010 audit of a large U.S.-based mining company. After the 2010 audit, the three individuals sanctioned participated in the deletion and improper alteration of the archived audit documentation in advance of an internal audit practice review and then made available the improperly altered work papers to PCAOB staff during an inspection and a subsequent PCAOB investigation.

Deloitte Brazil will pay an \$8 million civil penalty, the largest ever imposed by the PCAOB, to settle charges including issuing materially false audit reports and attempting to cover up audit violations by improperly altering documents and providing false testimony. In addition to the \$8 million civil penalty, Deloitte Brazil agreed to sanctions including:

- Censure,
- Undertakings to improve the firm's system of quality control,
- Appointment of an independent monitor to review and assess the firm's progress toward achieving remedial benchmarks,

- Immediate practice limitations, including a prohibition on accepting certain new audit work until the monitor confirms the firm's progress in achieving its remedial benchmarks,
- Additional professional education and training for the firm's audit staff.

Deloitte Brazil admitted that it violated quality control standards and failed to cooperate with a PCAOB inspection and investigation, the first admissions the PCAOB has obtained from a global network firm. The PCAOB found that Deloitte Brazil knowingly issued materially false audit reports for the 2010 financial statements and internal control over financial reporting of its client, a Brazilian airline. In advance of a 2012 PCAOB inspection, a Deloitte Brazil engagement partner, who also served as the firm's audit practice leader, directed junior personnel to alter work papers from the 2010 audit to conceal known audit deficiencies. The firm presented the improperly altered work papers, as well as other misleading documents and information, to PCAOB inspectors.

The PCAOB also announced sanctions against 12 former partners and other audit personnel of the firm, including certain firm leaders, for violations including noncooperation with a PCAOB inspection and subsequent investigation. A former engagement partner also was charged with causing the firm to issue materially false audit reports.

The settled disciplinary orders are available on the PCAOB website at:

<https://pcaobus.org/Enforcement/Decisions/Pages/default.aspx>.

International Institute on Audit Regulation

On December 12-14, 2016, the Board hosted approximately 90 officials from 36 non-US audit regulators and four international organizations at its tenth annual International Institute on Audit Regulation. In addition to the international participants, officials from a half dozen other U.S. regulatory and government agencies attended the event.

The agenda featured speakers from the American Enterprise Institute, the Securities and Exchange Commission, and the Treasury Department. PCAOB Chairman Doty led a panel discussion with several heads of audit regulatory bodies from around the world on moving audit regulation forward in the current environment. The Institute also featured panel discussions that covered a wide selection of other topics, including investor perspectives and regulatory enforcement.

Announcement of Standing Advisory Group Members

On December 16, 2016, the PCAOB announced eight new and seven re-appointed members to its SAG, resulting in total SAG membership of 37. The new and reappointed members will serve three-year terms beginning in January 2017.

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

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

Standard-Setting Update

The PCAOB published a standard-setting update as of December 31, 2016 that describes projects on its standard-setting agenda and its new research agenda. The document is updated quarterly.

Projects on the standard-setting agenda include:

- Auditor's Reporting Model,
- Auditing Accounting Estimates, Including Fair Value Measurements,
- The Auditor's Use of the Work of Specialists,
- Supervision of Audits Involving Other Auditors,
- Going Concern.

Projects on the research agenda include:

- Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities,
- Changes in the Use of Data and Technology in the Conduct of Audits,
- The Auditor's Role Regarding Other Information and Company Performance Measures, Including Non-GAAP Measures,
- Auditor's Consideration of Noncompliance with Laws and Regulations

The PCAOB also conducts monitoring activities in other areas that could impact audits or PCAOB standards (e.g., financial reporting fraud, auditor independence, and new accounting standards).

The December 31, 2016 standard-setting update is available on the PCAOB website at:

<https://pcaobus.org/Standards/Documents/Q42016-standard-setting-update.pdf>.

Settled Disciplinary Order with Ernst & Young (EY) Indonesia

On February 9, 2017, the Board announced that it censured and imposed a \$1 million civil penalty on EY Indonesia for audit failure, noncooperation, and violations of the Board's quality control standards. Shortly before a 2012 PCAOB inspection of the audit, members of the EY Indonesia engagement team improperly created dozens of new audit work papers and subsequently failed to cooperate with the Board's investigation.

In addition, the former professional practice director for the EY network's Asia-Pacific region and a former EY Indonesia engagement partner were sanctioned for their roles in the audit failure. The former engagement partner also was sanctioned for noncooperation with a Board inspection and investigation. None of the respondents admitted or denied the allegations contained in the order. The Board granted extraordinary cooperation credit to a member of the 2011 audit engagement team who provided substantial assistance to the Board in investigating the misconduct.

The settled disciplinary order is available on the PCAOB website at:

<https://pcaobus.org/Enforcement/Decisions/Documents/105-2017-002-EY-Indonesia.pdf>.

GAO Update

Gary Engel, Managing Director, Financial Management and Assurance and Maxine Hattery

GAO issued the latest High Risk List in February

It includes three new areas: the management of federal programs serving tribes, the U.S. government's environmental liabilities, and the 2020 decennial census.

Sharing and managing information related to terrorism was removed because of significant strides made domestically and internationally in sharing intelligence on terrorism, homeland security, and law enforcement.

High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others.
Available at:

[GAO-17-317, February 15, 2017.](#)

[Podcast: 2017 Update to GAO's High Risk List.](#)

GAO issued its report on the federal government's 2016 consolidated financial statements

GAO did not render an opinion on the federal government's consolidated financial statements for fiscal year 2016 due to deficiencies that have plagued prior financial statements—persistent financial management problems at the Department of Defense (DOD), the government's inability to account for and reconcile certain transactions, an ineffective process for preparing the consolidated financial statements, and significant uncertainties. These shortcomings hamper the government's ability to reliably report much of its financial information.

For 2016, almost all of the 24 Chief Financial Officers Act agencies received unmodified opinions on their respective entities' fiscal year 2016 financial statements. However, DOD and the Department of Housing and Urban Development have continuing impediments to receiving a clean opinion on their financial statements, and the Department of Agriculture received a clean opinion for only one of its financial statements.

[GAO's audit report on the U.S. government's consolidated financial statements](#) is included in the 2016 Financial Report of the United States Government, which is prepared by the Department of the Treasury, in consultation with the Office of Management and Budget, and is available on GAO's website.

Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government.
[GAO-17-283R](#), January 12, 2017.

GAO issued first annual report on the federal government's fiscal health for fiscal year 2016

Beginning an effort to examine the nation's fiscal health at the start of each year, GAO issued its first annual outlook on the nation's fiscal future. The work warns of mounting debt and other challenges, urges prompt action to address those challenges, and is designed to help inform Congress and the incoming administration. GAO encourages the development of a long-term plan that will address levels of federal spending and investments and the options to obtain needed resources.

The report discusses significant changes to the nation's fiscal condition in fiscal year 2016, long-term simulations of the federal debt, and fiscal risks placing additional pressure on the federal budget. Health care expenditures and net interest are now the main drivers of growing federal spending, and without policy changes, the debt-to-GDP ratio is projected to reach historic levels within 15-25 years. GAO also identifies steps that federal agencies can take to improve things, such as reducing improper payments; closing the tax gap; eliminating duplication, overlap, and fragmentation in federal programs; and producing better information on program and fiscal operations to strengthen decision making.

The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future. [GAO-17-237SP](#), January 17, 2017.

Other recently released financial audit reports of the federal government

Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2016 and 2015 Schedules of Federal Debt. [GAO-17-104](#), November 10, 2016.

Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-125R](#), November 10, 2016.

Financial Audit: IRS's Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-140](#), November 10, 2016.

Financial Audit: Bureau of Consumer Financial Protection's Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-138R](#), November 15, 2016.

Financial Audit: Federal Housing Finance Agency's Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-139R](#), November 15, 2016.

Financial Audit: Securities and Exchange Commission's Fiscal Years 2016 and 2015 Financial Statements. [GAO-17-158R](#), November 15, 2016.

Financial Audit: Federal Deposit Insurance Corporation Funds' 2016 and 2015 Financial Statements. [GAO-17-299R](#), February 15, 2017.

Other recent reports of interest

Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended. [GAO-17-15](#), October 14, 2016.

Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates. [GAO-17-22](#), November 15, 2016.

Social Security Offsets: Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief. [GAO-17-45](#), December 19, 2016. [Podcast](#): Relief for Older Americans with Student Loans.

DOD Financial Management: Significant Efforts Still Needed for Remediating Audit Readiness Deficiencies. [GAO-17-85](#), February 9, 2017.

Government Purchase Cards: Little Evidence of Potential Fraud Found in Small Purchases, but Documentation Issues Exist. [GAO-17-276](#), February 14, 2017.

Single Audits: Improvements Needed in Selected Agencies' Oversight of Federal Awards. [GAO-17-159](#), February 16, 2017.

Testimony

DATA Act: Implementation Continues but Challenges Remain, before the Government Operations Subcommittee, House Oversight and Government Reform. [GAO-17-282T](#), December 8, 2016.

High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others. [GAO-17-375T](#), [GAO-17-407T](#), February 15, 2017.

Coming soon

The exposure draft for a revision of *Government Auditing Standards* (the Yellow Book) is scheduled for posting on the GAO website ([gao.gov](#)) this spring.

ASB Update

By Steve Glover

Brigham Young University and Auditing Standards Board Member

New Standards

The ASB voted unanimously to issue SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*," which supersedes SAS No. 126. The new SAS is effective for periods ending on or after Dec. 15, 2017. SAS No. 132 considers FASB ASU No. 2014-15, which addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. However, SAS No. 132 is neutral regarding accounting frameworks so it can be applied to financial statements prepared under different frameworks. The SAS includes a new requirement to gather sufficient appropriate evidence around intent and ability of financial support when management's plans include financial support from an owner-manager or a third party. You can read more about the new Going Concern standard [here](#).

The ASB issued clarified attestation standards under Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*. The issuance completes the Board's clarity project to make standards easier to read and apply. The clarified attestation standards will be denoted AT-C to differentiate the sections that have been superseded. SSAE No. 18 supersedes the existing attestation standards, except for two sections and is effective for attestation reports dated on or after May 1, 2017. You can read more about the release of SSAE No. 18 [here](#).

January 2017 ASB Meeting

There are several highlights from the ASB's January 2017. These include:

- Going concern,
- Auditor Reporting,
- Reporting on ERISA Plan Financial Statements,
- Exempt Securities,
- Direct Engagements,
- Other Information.

Each will be discussed in the following paragraphs.

Going Concern

For going concerns, the ASP completed final revisions prior to issuance of SAS No. 132.

Auditor Reporting

Auditor Reporting Task Force led the ASB in a discussion of a proposed standard for communicating key audit matters (KAM) in the auditor's report. The proposed standard reflects convergence with ISA 701, *Communicating Key Audit Matters in the Auditor's Report*. The ASB supports developing a new AU-C section 701 to address communicating KAM. In addition, the ASB supports convergence with ISA 701 and directed the task force to eliminate differences between the proposed standard and ISA 701, unless those differences are necessary for application in the United States. The ASB will continue to discuss the Auditor's Report project in the May 2017 meeting.

Reporting on ERISA Plan Financial Statements

The EBSA report, *Assessing the Quality of Employee Benefit Plan Audits*, provides a number of ideas for improving the auditor's report for employee benefit plans. In our January meeting, Darrel Schubert, chair of the EBP Auditor Reporting Task Force, led the discussion of a proposed standard to address performance and reporting requirements for audits of financial statements of employee benefit plans subject to ERISA (ERISA plan financial statements). The proposed standard includes requirements for the form and content of the auditor's report for an unmodified opinion, a new opinion when an ERISA-permitted scope limitation is imposed and a new reporting element to report the findings from procedures performed on specific plan provisions relating to the financial statements. The ASB had a follow-up teleconference on February 22, 2017 and voted to ballot the proposed standard for exposure. The exposure document will ask number of questions about areas the ASB has not yet reached consensus such as whether to include findings in the auditor's report when reporting on specific plan provisions relating to the financial statements.

Reporting on ERISA Plan Financial Statements

All but one of the 20 comment letters received in response to the Exposure Draft were supportive and the ASB concurred with the Task Force that the charge to move forward with the proposed standard is valid. The ASB did a read-through of the entire proposed SAS, *Auditor Involvement with Exempt Offering Documents*. The ASB discussed a number of changes and the Task Force agreed to do more research and outreach on franchise agreements. The ASB generally agreed that the seven proposed triggers are appropriate and that no other potential triggers have been omitted. The Task Force will bring a ballot

Direct Engagements

A proposed draft that is closely aligned with the Canadian standard on direct engagements is expected to be brought to the ASB in May. The ASB has decided that, rather than re-opening AT-C standards that are effective in May 2017, to develop new types of engagements for *which an assertion is not required*. It is believed that separate standards will better help practitioners understand the new types of engagements.

Other Information

The ASB discussed issues relating to the project to revise AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* and walked through the draft standard. The ASB directed that the Task Force:

- Develop guidance that would assist the auditor in determining, through discussions with management, whether other information includes information that is available through a hyperlink in the annual report or is incorporated by reference,
- Consider what the auditor should be required to do in situations where the entity fails to provide documents that form part of the annual report,
- Make clear that the group auditor is responsible for reading the entire annual report but that if the group auditor does not assume responsibility for the work of component auditors, the group auditor's knowledge does not include the component auditor's knowledge.

Have You Seen....?

Tamara Lambert, Lehigh University

Stephen Fuller, Lehigh University

James D. Whitworth, University of South Florida

“If You Want My Advice: Status Motives and Audit Consultations About Accounting Estimates” By W.Robert Knechel and Justin Leiby. *Journal of Accounting Research* 2016 54(5): 1331-1363.

This study investigates how consultants’ desire for status affects the advice they give to auditors. Specifically, the authors study how consultants’ desire to enhance their status influences the contrariness and precision of advice they provide. The study also addresses whether consultants’ reactions to status motives depends on their specialized knowledge and/or decision authority. The authors predict that when consultants have specialized knowledge their advice will be less contrary and more precise and when they have less decision authority their advice will be more contrary and less precise. The authors conduct an experiment with 102 Big 4 audit managers and senior managers where they prime status motives (active vs. non-active), manipulate decision authority (high vs. low), and measure specialized knowledge of the domain (high vs. low). Participants perform a task where they provide advice on an appropriate range of discount rates for valuation. Consistent with predictions, the authors find that consultants with higher specialized knowledge give more precise, less contrary advice and that higher decision authority reduced precision. However, the increased precision is of limited value as it is due to a tightening of range bounds in a manner unlikely to prompt the auditor to challenge the estimate. The authors conclude that their findings suggest audit firms and standard setters should direct consultants to focus scrutiny on the range bound that is most likely to constrain manager opportunism.

“Mandatory Management Disclosure and Mandatory Independent Audit of Internal Controls: Evidence of Configural Information Processing by Investors.” By Khim Kelly and Hung-Tong Tan. *Accounting, Organizations and Society* 2017 56: 1-20.

The authors investigate the effect of mandatory management disclosure and mandatory audit of the effectiveness of internal control over financial reporting (ICFR) on investor judgments. Specifically, the study addresses whether investors consider mandatory disclosure and mandatory audit as substitutes for each other or complements. The authors predict that for firms disclosing no Material Weaknesses in ICFR, investors will employ configural processing and treat mandatory disclosure and mandatory audit as substitutes in determining the investment potential of a firm. In the study’s primary experiment, accounting and finance graduates serve as proxies for investors. The authors manipulate both disclosure and audit of ICFR effectiveness as mandatory or voluntary between participants and whether or not a Material Weakness exists within participants. Participants rate investment potential for each of the two firms. As predicted, for the no Material Weakness firm, mandatory disclosure and audit together did not increase investment potential ratings beyond either of the regulatory measures alone, suggesting that

the two are substitutes for each other. For the firm reporting a Material Weakness, mandatory disclosure and audit each had no effect on investment potential ratings.

“Understanding Audit Quality: Insights from Audit Professionals and Investors.” By Brant E. Christensen, Steven M. Glover, Thomas C. Omer and Marjorie K. Shelley. *Contemporary Accounting Research* 2017 33(4): 1648-1684.

Collecting observations of both auditors and nonprofessional investors, this study provides each group’s insights on the complex definition and measurement of audit quality. The authors seek to inform the many regulatory and professional organizations currently pursuing a better understanding of audit quality through a variety of initiatives. The authors surveyed 93 highly experienced auditors and 102 nonprofessional investors with significant investing and professional experience. Participants provided their own definitions of audit quality and rated the importance to audit quality of a variety of engagement, audit team, and auditee characteristics. The participants also rated the degree to which PCAOB inspection report deficiencies were associated with audit firm quality and which publicly observable signals (such as restatements and SEC enforcement actions) were most associated with low audit quality. In defining audit quality, investors were most focused on auditor characteristics such as training, competence, and skepticism. While auditors also cited these elements, they also focused on the audit process and its conformity with auditing standards. Both groups also noted the importance of a well-planned audit. Despite PCAOB warnings to the contrary, both investors and auditors negatively associated PCAOB inspection report deficiencies with overall audit firm quality. Restatements were identified by both groups as the strongest observable signal of low audit quality. Survey results generally supported the majority of the PCAOB’s currently proposed audit quality indicators.

“Legal Regimes and Investor Response to the Auditor’s Going-Concern Opinion.” By Asad Kausar, Richard J. Taffler and Christine E. L. Tan. *Journal of Accounting, Auditing, and Finance* 2017 32(1): 40 – 72.

This study considers how investors use the auditor’s going-concern opinion information across different legal regimes, generally finding that the capital market responds more negatively in a creditor-friendly legal regime (the United Kingdom) relative to a more debtor-friendly legal regime (the United States). According to the study, bankruptcy in effect pits creditors versus shareholders in a zero-sum game, such that differences in the legal setting may dictate “winners” versus “losers” in the battle for distributing what remains following bankruptcy. Interestingly, the authors also find the difference in reaction to a first-time going-concern report is primarily driven by U.K. companies with a high degree of leverage (i.e. many creditors to be paid) or a higher degree of bankruptcy (greater probability of the bankruptcy laws going into effect). Lending further credence to their main findings, the authors find that as U.S. bankruptcy laws have become more creditor-friendly, the market reaction to a first-time going concern has become comparable to the reaction in the U.K.

“Estimates of Optimal Audit Firm Tenure Across Different Legal Regimes.” By Li Z. Brooks, C. S. Agnes Cheng, Joseph A. Johnston and Kenneth J. Reichelt. *Journal of Accounting, Auditing, and Finance* 2017 32(1): 3-39.

This paper contributes to the debate regarding auditor rotation policies and auditor tenure, considering audit quality as an inverted U-shape as auditor tenure increases. The authors then estimate the point at which audit quality starts to decline due over the auditor’s tenure, the point at which the decline in audit quality stemming from auditor’s tenure becomes severe enough that an auditor change would be optimal (i.e. the company’s multi-year average audit quality would decline if no auditor change occurred), and the point in auditor tenure at which an auditor change would immediately improve audit quality. The authors estimate these points for different country-level investor protection regimes, resulting in an optimal point for auditor change of 14 years for low investor protection countries and 24 years for high investor protection countries. Interestingly, these optimal points are generally significantly later than the mandatory auditor rotation policies being proposed and implemented. It is also noteworthy that less than three percent of the study’s firm-year observations occurred after the optimal change point, and none of the firm-year observations occurred after the point at which a new auditor would immediately provide higher audit quality than the incumbent auditor.

“Auditor’s Downward Switch, Governance, and Accounting Conservatism.” By Santunu Mitra, Bikki Jaggi and Talal Al-Hayale. *Journal of Accounting, Auditing, and Finance* 2016 31(4): 551-581.

The authors examine trends in accounting conservatism surrounding a switch from a Big 4 auditor to a non-Big 4 auditor, while also considering the influence of corporate governance as an alternate monitoring mechanism. Generally consistent with prior research, they find a decline in accounting conservatism following the switch, but that the decline is generally limited to changes from a Big 4 to a *smaller* non-Big 4 auditor (i.e. not Grant Thornton or BDO Seidman). Additionally, they find that weaker corporate governance is associated with a more severe decline in accounting conservatism following a move to a non-Big 4 auditor.

Have You Seen These Educational Resources?

Ed Douthett, George Mason University, Chair

Patricia Johnson, Canisius College

Marsha Keune, University of Dayton, Vice Chair

Julie Persellin, Trinity University

Have You Seen These Big Data Cases for Auditing Courses?

The Analytics Mindset – Pcard Case. By EY Academic Resource Center. 2016.

This case is intended for use in an introductory or advanced level auditing course. Using publicly available Pcard data, students complete a series of tasks that familiarize them with asking the right questions, identifying appropriate data analytics techniques, and interpreting and sharing results.

“Mystery, Inc.: A Big Data Case.” By Kathryn Enget, Gabriel D. Saucedo and Nicole S. Wright. *Journal of Accounting Education* 2017 (38): 9-22.

This case requires students to perform journal entry testing and data analytics in order to meet GAAS requirements on fraud risk.

“Manual Journal Entry Testing: Data Analytics and the Risk of Fraud.” By Rebecca Fay and Eric M. Negangard. *Journal of Accounting Education* 2017 (38): 37-49.

This case provides students the opportunity to validate data sets for journal entry tests (i.e., determine whether the data set is complete) and perform testing of a journal entry data set to identify fraud risks.

“The Need for ‘Skeptical’ Accountants in the Era of Big Data.” By Earl McKinney, Charles J. Yoos and Ken Snead. *Journal of Accounting Education* 2017 (38): 63-80.

This article presents a framework and examples to assist in educating students to approach data analysis as skeptics.

Have You Seen These Big Data Cases for Auditing Courses?

“A Case Study of Fraud Concerns at a Homeowners’ Association.” By Constance M. Lehmann and Cynthia D. Heagy. *Issues in Accounting Education* 2017 32 (1): 79-94.

This case, based on a real situation, requires students to identify fraud risk red flags and to identify recommendations for reducing fraud risk in identified areas.

“Cook and Thomas, LLC: Balancing Auditor Liability, Client Confidentiality, and the Public Interest.” By Kelsey R. Brasel and Brian E. Daugherty. *Issues in Accounting Education* 2017 32 (1): 17-32.

In this case, students serve in the role of an audit partner who has information about one client that could impact other audit clients of the firm. Students are required to consider professional standards and responsibilities regarding client confidentiality, as well as other motives such as auditor liability and the public interest.

“Diamond Foods, Inc.: A Comprehensive Case in Financial Auditing.” By Mahendra r. Gujarathi. *Issues in Accounting Education* 2017 32 (1): 95-112.

Diamond Foods overstated earnings in 2010 and 2011. The case focuses on whether the company’s auditor performs its responsibilities related to understanding the business and industry and appropriately used analytical procedures in fulfillment of its responsibilities.

“Enterprise system case using Microsoft Dynamics GP via DynamicsCloud.” By Marcia W. Watson, Bonnie K. Klamm, Joann Segovia and Mark W. Lehman. *Journal of Accounting Education* 2017 37: 67-92.

This case provides students the opportunity to understand an enterprise systems including the revenue and purchasing cycles, as well as related internal controls.

“Kendalville Bank Case Study.” Center for Audit Quality 2015.

This case is designed to help students learn to exercise professional skepticism while reviewing the financial reporting process in a public company setting. It provides the opportunity for students to evaluate questionable accounting decisions made by a star executive and evaluate them in the context of a potential fraud at the organization.

“Newport Soup, Inc.: An Interactive Inherent Risk Assessment Case.” By Michael Cipriano, Erin L. Hamilton and Scott D. Vandervelde. *Journal of Accounting Education* 2016 37: 13-23.

This case requires students to use professional e-mail communications to acquire the information necessary to perform an inherent risk assessment including analytical procedures.

“On-Line Gaming, Financial Reporting, and Audit: Chest Games Corp.” By Joan D. Conrod and Judy Cumby. *Issues in Accounting Education* 2016 31(4): 431-437.

In addition to financial accounting and reporting tasks, students consider risk of material misstatement, materiality, and substantive procedures related to significant issues at an on-line game company including revenue and asset impairment.

“Social Technology: A Compendium of Short Cases.” By Brett Considine, John P. Krahel, Margarita M. Lenk and Diane J. Janvrin. *Issues in Accounting Education* 2016 31(4): 417-430.

This article includes seven cases that provide students opportunities to practice and develop several skills in the context of social technology. Relevant skills include risk identification, the application of accepted control frameworks (e.g., COSO, COBIT), and the identification of monitoring activities.

“Teaching Students about Audit Reports: An Interactive Approach.” By Rebecca G. Fay and Sarah E. Stein.” *Current Issues in Auditing* 2016 10(2): 114-125.

This case requires students to search online to find real-world audit reports that can be used to highlight reporting issues and challenges. After obtaining information from the audit reports and understanding the current guidance for auditor reporting, students are asked to critically examine the current approach to auditor reporting.

“Tempest in a K-Cup: Red Flags on Green Mountain.” By Dennis H. Caplan, Saurav K. Dutta and David J. Marcinko. *Issues in Accounting Education* 2017 32(1): 79-94.

Although it was designed for financial accounting, forensic accounting, and accounting capstone courses, this case could also be used in auditing courses. It provides students with the opportunity to link business risks to financial reporting risks, understand strategies to increase revenue, understand related party transactions, analyze financial statements, and understand the role of external parties (e.g., regulators, investors, and journalists) in financial reporting.

Have You Seen These Other Instructional and Program Development Resources?

“Extra Credit ‘Opportunities’: A Tool to Motivate Group Interaction in the Classroom.” By Kimberly D. Westermann and Jay C. Thibodeau. *Current Issues in Auditing* 2016 10(2): 11-113.

This resource describes a technique to encourage students to work effectively within groups and to develop group interaction skills within the classroom.

“Fraud Risk Management Guide.” By David L. Cotton, Sandra Johnigan and Leslye Givarz. COSO and Association of Certified Fraud Examiners. 2016.

This guide is intended to support principle 8 of the revised COSO Internal Control Framework. It provides best practices in fraud risk assessment, establishing governance policies around fraud risk, prevention and detection strategies and monitoring. The Executive Summary highlights the main elements of the guide.

“Sitting Requirements and the CPA Exam.” By Jared S. Soileau, Spencer C. Usrey and Thomas Z. Webb.
***Issues in Accounting Education* 2017 21(1): 1-15.**

This study provides evidence that candidates in 150-hour exam jurisdictions perform better than candidates in 120-hour exam jurisdictions, while candidates who are allowed to sit prior to meeting educational requirements (i.e., provisional jurisdictions) perform better than candidates in both 120-hour and 150-hour exam jurisdictions.

“Toward integration of Big Data, Technology and Information Systems Competencies into the Accounting Curriculum.” By Deb Sledgianowski, Mohamed Gomaa and Christine E.L. Tan.
***Journal of Accounting Education* 2017 38: 81-93.**

This article illustrates ways to integrate Big Data and technology throughout the accounting curriculum. It also provides representative examples of resources available to achieve this aim.

“Video Vignettes: Classroom and Training Resources.” By Center for Audit Quality. 2017

These short videos, each approximately five minutes in length, provide the opportunity to view and evaluate conversations between members of an audit team as well as auditors and clients. Interviewing techniques, exercising professional skepticism, and discussions of sensitive issues are examples of the content included.

Do You Know How to Access Auditing Standards?

AICPA Auditing Standards

The American Institute of Certified Public Accountants (AICPA), through the work of the Auditing Standards Board (ASB), is responsible for developing comprehensive standards for audits of non-issuers. The standards are available, for a fee, in paperback form as well as a one-year online subscription. The online subscription is updated as needed throughout the year, providing the user with access to the most recent pronouncements and amendments.

PCAOB Auditing Standards

The PCAOB establishes auditing and related professional practice standards for registered public accounting firms to follow in the preparation and issuance of audit reports for publicly traded companies. The PCAOB recently reorganized the standards using a topical structure, as well as a single, integrated numbering system. Unrestricted on-line access to the standards is available.

IAASB Auditing Standards

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that functions with support from the International Federation of Accountants (IFAC). The IAASB

strives to set high-quality international standards for auditing, assurance, and other related areas, and to improve the uniformity of practice by professional accountants throughout the world. On-line access to the standards is free; however, users are required to register/login. Hardcopies are available for a fee.