

## **Newsletter Contents**

Report of the President

PCAOB Standards Update

GAO Update

Auditing Standards Board Update

Publication Highlight: Current Issues In Auditing

AAA Council Update

Auditing Standards Committee Activities Report

Have You Seen?

Have You Seen (Video Edition)?

### **Calls and Announcements**

AICPA Assurance Research Advisory Group Call for Research Proposals

University of Florida International Conference on Assurance and Governance Call for Papers

2017 Critical Perspectives on Accounting Conference Call for Papers

2017 Journal of Information Systems Sources of Data Issue Call for Papers

Current Issues in Accounting Call for next Academic Co-Editor

# Report of the President

By Chris Hogan



Greetings from East Lansing, Michigan. I hope everyone is enjoying a productive Summer and time with family and friends.

I am looking forward to attending the Annual Meeting in New York in August for the “Celebration of the Century”. The Annual Meeting Planning Committee, consisting of Barb Grein, Lisa Gaynor, Jian Zhou, Brian Bratten, Nate Stephens and David Wood, have been working for several months to put together an outstanding program for the Auditing Section. Please thank them if you see them at the meeting! Our Auditing Section luncheon will be on Monday, August 8<sup>th</sup>, and Tim Ryan, U.S. Chairman of PwC will be our guest speaker. I look forward to seeing you there.

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

## Center for Audit Quality (CAQ)

The AAA Auditing Section–Center for Audit Quality [Access to Audit Personnel Program](#) awarded its [fourth round of projects](#) that will be supported by the CAQ’s eight Governing Board Firms. The CAQ team works closely with the firms to administer the data collection protocols for the researchers. All four of the 2016 awardees are currently in the field. Data collection should be completed by the end of the summer.

## New for 2017

The Access program is being expanded to accept proposals for projects where the principal investigator is a tenured faculty member. In its first four years, the program was limited to doctoral students and tenure-track professors. The Access to Audit Personnel Review Committee plans to make awards to 8 – 10 projects in 2017. The RFP for the 2017 award cycle will be released at the AAA Annual Meeting. Proposals will be due February 1, 2017, and awards will be announced in April. For additional

information about this program, visit the [CAQ's website](#)'s Access to Audit Personnel page. Thank you to the CAQ for continuing to support academic research.

### **The 2016 Audit Educators' Boot Camp**

The Audit Educator's Boot Camp was held in Chicago at the end of June at the Grant Thornton offices. The workshop was once again fully subscribed and the academics attending benefited from the participation of partners and managers from several firms who attend the sessions and provide their insights. Thank you to Frank Buckless and Chris Earley for their continued leadership in what I believe to be one of the best opportunities the Auditing Section provides each year.

### **2017 Auditing Section Midyear Meeting**

Even though it is only July, planning for the 2017 Midyear Meeting has already begun. Noel Harding and Ling Lisic, Program Co-Chairs, have already begun planning to make the meeting to be held in Orlando, Florida a great success. Look for the upcoming call for submissions and also the call for volunteers. Please volunteer as a reviewer and take the time to provide thoughtful and valuable feedback to your colleagues on their research.

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

I would like to personally thank Jay Thibodeau for serving as VP-Academic, President, and Past-President over the past three years. Jay worked tirelessly and effectively on behalf of the Section and his efforts have resulted in new research and education opportunities for our members. In addition, I would like to thank Steve Meisel (now retired from PwC) for serving as Vice-President, Practice for the past two years, Scott Showalter for serving as Section Historian, and Mark Zimbelman for serving as Secretary for the past two years. I cannot say enough about the dedication of these individuals and how much they do on behalf of the Section and our profession. They are truly first-class individuals and I am honored to have served on the Executive Committee with them. I hope you take the time to thank these individuals for their service. The Section will be in good hands this coming year as Karla Johnstone transitions into the role of President. Other new members of the Executive Committee include Rick Hatfield as Vice-President, Academic, Susan Scholz as Secretary, Dan Sunderland as Vice-President, Practice and Mark Taylor as Historian.

Thanks again to the many individuals who contribute to the mission of our Section. Enjoy the Summer and I look forward to seeing you in New York.

Chris Hogan  
President

## PCAOB Update

By Martin F. Baumann – PCAOB Chief Auditor, Dima Andriyenko – Associate Chief Auditor and Elena Bozhkova – Assistant Chief Auditor

### Introduction

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

- Settled Disciplinary Orders for Violating Independence Requirements in Connection with Audits of Brokers and Dealers
- Report Describing Inspection Observations Related to Audit Firms' Communications with Audit Committees
- Comment Request on Engagement Quality Review Standard under New Post-Implementation Review Program
- Proposed New Requirements to Strengthen Auditor Supervision of Other Auditors
- Staff Inspection Brief Previewing 2015 Inspection Findings
- Staff Inspection Brief Previewing 2015 Inspection Findings of Auditors of Brokers and Dealers
- Staff Audit Practice Alert on Improper Alteration of Audit Documents
- Re-proposed Standard to Enhance the Auditor's Report
- PCAOB Standing Advisory Group Meeting
- Settled Disciplinary Orders
- Nominations for 2017-2019 Term of PCAOB Standing Advisory Group
- Staff Guidance for Firms Filing the New Form AP, *Auditor Reporting of Certain Audit Participants*

### Settled Disciplinary Orders for Violating Independence Requirements in Connection with Audits of Brokers and Dealers

On March 15, 2016, the Board announced settled disciplinary orders sanctioning five audit firms for violating independence requirements in connection with audits of brokers and dealers. The five firms prepared financial statements that they also audited for broker-dealer clients. One of the five firms also maintained and prepared the client's accounting records.

The Board also determined not to commence a disciplinary action against a sixth firm because of that firm's extraordinary cooperation with the PCAOB — specifically, the firm's timely and voluntary self-reporting to the PCAOB Tip Line after discovering that it had impaired its independence, as well as timely, voluntary, and meaningful remedial actions. The settled disciplinary orders are available on the PCAOB website at:

<https://pcaobus.org/News/Releases/Pages/Five-BD-independence-orders-one-cooperation-3-15-16.aspx>.

## **Report Describing Inspection Observations Related to Audit Firms' Communications with Audit Committees**

On April 5, 2016, the Board released a report on inspection observations of registered audit firms' initial implementation of and compliance with the PCAOB auditing standard on Communications with Audit Committees (AS No. 16/AS 1301), describing that in 93 percent of the audits inspected in 2014 for which the standard applied, no failures to comply with the requirements were identified. Preliminary results from 2015 inspections show similar results.

According to the report, PCAOB inspectors found that most firms inspected in 2014 had incorporated the requirements of the standard on Communications with Audit Committees into their audit methodologies, introduced relevant practice aids, or provided training to their partners and staff.

The report is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/2016-communications-audit-committees.pdf>.

## **Comment Request on Engagement Quality Review Standard under New Post-Implementation Review Program**

On April 6, 2016, the Board released a request for public comment from the PCAOB Center for Economic Analysis that will inform the first post-implementation review of the overall effect of previously adopted PCAOB rules and standards. The goal of the program is to evaluate whether adopted rules and standards are accomplishing their intended purposes and identify any unintended consequences, as well as gauge the overall effects of the rules or standards.

This request for comment will provide the Center with information to evaluate the auditing standard on Engagement Quality Review (AS No. 7/AS 1220), which was adopted in 2009 replacing an auditing standard that had been in place since the 1970s. The request for comment is available on the PCAOB website at:

<https://pcaobus.org/EconomicAndRiskAnalysis/CEA/Documents/2016-request-for-comment-AS7.pdf>

## **Proposed New Requirements to Strengthen Auditor Supervision of Other Auditors**

On April 12, 2106, the Board issued a proposal to strengthen existing requirements and impose a more uniform approach to a lead auditor's supervision of other auditors.

In many audits, particularly those of large, multinational companies, important audit work is performed by accounting firms or individual accountants outside the audit firm issuing the audit report. The proposal addresses the lead auditor's responsibilities in overseeing those other auditors.

The proposal includes amendments to current standards and a new standard. These changes include:

- Report Describing Inspection Observations Related to Audit Firms' Communications with Audit Committees.
- Comment Request on Engagement Quality Review Standard under New Post-Implementation Review Program.
- Directing the lead auditor's supervisory responsibilities to the areas of greatest risk, consistent with PCAOB risk-assessment standards.
- Making clear that, to act as lead auditor, an audit firm must itself audit a meaningful portion of the financial statements.
- Requiring more explicit procedures to prompt the lead auditor to bolster its involvement in the work of other auditors (through enhanced communication and more robust evaluation of other auditors' qualifications and work).

The Board requests public comment on its proposal by July 29, 2016. The proposal is available on the PCAOB website at:

<https://pcaobus.org/Rulemaking/Docket042/2016-002-other-auditors-proposal.pdf>

and a fact sheet is available at:

<https://pcaobus.org/News/Releases/Pages/PCAOB-proposal-other-auditors-fact-sheet.aspx>.

### **Staff Inspection Brief Previewing 2015 Inspection Findings**

On April 19, 2016, staff of the PCAOB published an inspection brief that previews the results of 2015 inspections. Preliminary inspection results of annually inspected firms indicate the overall number of audit deficiencies identified in 2015 decreased compared to the results from 2014. For firms that are required to be inspected at least once every three years, inspections staff observed an overall high number of audit deficiencies in preliminary 2015 inspection results.

In preliminary 2015 inspection results for annually inspected and triennially inspected firms, the most frequent audit deficiencies continue to be in three key areas:

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

The inspection brief is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/Inspection-Brief-2016-1-Auditors-Issuers.pdf>

### **Staff Inspection Brief Previewing 2015 Inspection Findings of Auditors of Brokers and Dealers**

On April 19, 2016, staff of the PCAOB published an inspection brief that previews the results of 2015 inspections of broker and dealer auditors. The 2015 inspection cycle was the first in which all audits of brokers and dealers were required to be conducted in accordance with PCAOB standards.

PCAOB inspectors focused on and identified deficiencies in the following areas in 2015:

- Auditor independence
- Financial statement audit procedures
- Audit procedures on the supplemental schedules to the financial statements
- The examination of compliance reports and the review of exemption reports under newly applicable PCAOB standards
- The engagement quality review

The inspection brief is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/Inspection-Brief-2016-2-Auditors-Broker-Dealers.pdf>.

### **Staff Audit Practice Alert on Improper Alteration of Audit Documents**

On April 21, 2016, staff of the PCAOB published Staff Audit Practice Alert No. 14, *Improper Alteration of Audit Documentation*, which reflects PCAOB staff concerns about auditors improperly altering audit documentation in connection with a PCAOB inspection or investigation.

In the past several years, the Board has sanctioned firms and individuals for improperly deleting, adding, or altering documentation in connection with an inspection or investigation. Recently, PCAOB enforcement staff has uncovered evidence of additional instances of similar misconduct, including evidence that registered firms and associated persons have improperly deleted, added to, or altered audit documentation in connection with Board inspections, and then made the altered documents available to PCAOB inspectors without informing the inspectors of the alterations.

The Staff Audit Practice Alert is available on the PCAOB website at:

<https://pcaobus.org/Standards/QandA/SAPA-14-improper-alteration-audit-documentation.pdf>.

### **Re-proposed Standard to Enhance the Auditor's Report**

On May 11, 2016, the Board re-proposed for public comment the auditor reporting standard to enhance the auditor's report to make it more informative for investors by requiring auditors to provide information on critical audit matters. The revised proposal would retain the pass/fail model in the existing auditor's report, but would provide additional information in the report, such as the communication of critical audit matters arising from the audit and new elements related to auditor independence and auditor tenure.

The concept of critical audit matters has been carried forward from the 2013 proposal although the re-proposed requirements have been refined in a number of respects, including by:

- Limiting the source of potential critical audit matters to matters communicated or required to be communicated to the audit committee
- Adding a materiality component to the definition of a critical audit matter
- Narrowing the definition to only those matters that involved especially challenging, subjective, or complex auditor judgment



- Revising the related documentation requirement
- Expanding the communication requirement to require the auditor to describe how the critical audit matter was addressed in the audit

The revised proposal would generally apply to audits conducted under PCAOB standards. Unlike the 2013 proposal, however, the requirements regarding critical audit matters would not apply to audits of brokers and dealers reporting under the Securities Exchange Act of 1934 Rule 17a-5; investment companies other than business development companies; and employee stock purchase, savings, and similar plans.

The Board requests public comment on its reproposal by August 15, 2016. The re-proposal is available on the PCAOB website at:

<https://pcaobus.org/Rulemaking/Docket034/Release-2016-003-ARM.pdf>

a fact sheet is available at:

<https://pcaobus.org/News/Releases/Pages/Fact-Sheet-Rep Proposal-Auditors-Report-051116.aspx>

### **PCAOB Standing Advisory Group Meeting (SAG)**

On May 18-19, 2016, the Board held a meeting of its SAG. The meeting agenda featured discussions on the auditor's role regarding non-GAAP and other company performance measures, the auditor's reporting model, and how lead auditors supervise other auditors. In addition, meeting participants discussed emerging audit issues and received updates on recent PCAOB developments and the standard-setting agenda.

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-May-2016.aspx>.

### **Settled Disciplinary Orders:**

1. On May 19, 2016, the Board announced sanctions in settled disciplinary orders against a Hong Kong audit firm, its New York affiliate, and four individuals for violations of PCAOB rules and standards arising from audits of a NASDAQ-listed company located in the People's Republic of China. AWC (CPA) Limited, a Hong Kong audit firm, and its managing director and director of audit were sanctioned for improperly relying on management representations, ignoring red flags indicating possible fraud, impaired independence, and other violations. AWC LLP, an affiliated firm in New York, and its two partners were sanctioned for quality control, impaired independence, and other violations.

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

<https://pcaobus.org/News/Releases/Pages/PCAOB-sanctions-hong-kong-audit-firm-new-york-affiliate-four-individuals.aspx>.

2. On June 15, 2016, the Board announced sanctions in settled disciplinary orders against five audit firms and seven individuals for audit failures, violations of EQR rules, or for noncooperation with a Board investigation. The PCAOB also obtained admissions to some or all of the facts, findings, and violations from four of the firms and six of the individuals. According to the orders, some of the firms permitted companies to issue their audit reports without obtaining approval from engagement quality reviewers. In some instances, firms had multiple violations of the EQR standard and failed to obtain sufficient appropriate audit evidence to support their audit opinions. In another matter that did not involve engagement quality reviews, a firm and three associated individuals failed to cooperate with a Board investigation by refusing to provide sworn testimony or documents.

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

<https://pcaobus.org/News/Releases/Pages/enforcement-attachment-06-15-16.aspx>.

3. On June 30, 2016, the Board announced sanctions in a settled disciplinary order against an audit firm and an associated person for violations of PCAOB rules and standards in connection with two audits of one issuer client. The respondents failed to exercise due professional care, including professional skepticism, and failed to obtain sufficient appropriate audit evidence.

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

<https://pcaobus.org/Enforcement/Decisions/Documents/105-2016-026-KCC-Kwok.pdf>

### **Nominations for 2017-2019 Term of PCAOB Standing Advisory Group**

On June 23, 2016, the Board announced that it is soliciting nominations for the 2017-2019 term of its SAG.

Nominees for the three-year SAG term should have expertise in accounting, auditing, corporate finance, corporate governance, or investing in public companies. The Board also is seeking nominees with experience in auditing or financial reporting for broker-dealers and smaller public companies.

Nominations to the SAG, including self-nominations, may be submitted by any person or organization.

The deadline for submissions is August 22, 2016.

The nomination forms and additional information about the SAG are available at

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

### **Staff Guidance for Firms Filing the New Form AP, *Auditor Reporting of Certain Audit Participants***

On June 28, 2016, the PCAOB issued staff guidance for firms filing the new Form AP, disclosing the names of engagement partners and other firms participating in public company audits. The PCAOB also

launched a web resources page on Form AP for investors, auditors, and others interested in the information. In December 2015, the Board adopted new rules and accompanying amendments to auditing standards, creating Form AP, *Auditor Reporting of Certain Audit Participants*.

The PCAOB staff guidance covers provisions of the new rules, such as assigning engagement partner identification numbers and estimating audit hours when disclosing the participation of other accounting firms, among other things. Staff may update this guidance as needed.

The new Form AP web page provides additional resources to audit firms preparing to comply with the new rules, such as general instructions for the form and a sample form that can be downloaded for reference.

Firms are required to file Form AP for public company audit reports issued on or after:

- January 31, 2017, for engagement partner names
- June 30, 2017, for other audit firms that participated in the audit

The staff guidance on Form AP is available on the PCAOB website at:

<https://pcaobus.org/Standards/Documents/2016-06-28-Form-AP-Staff-Guidance.pdf>

and the web resources page is available at:

<https://pcaobus.org/Pages/form-ap-reporting-certain-audit-participants.aspx>

## **GAO Update**

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

### **Opportunities for Improvement: Taxation and Financial Regulation**

In the sixth annual report on areas where federal programs or activities are fragmented, overlapping, or duplicative, GAO found opportunities for greater efficiency and effectiveness. GAO found evidence of fragmentation, overlap, or duplication in 12 areas of government activity, and opportunities to avoid costs or enhance federal revenue in 25 areas. All 37 areas are detailed in the April 2016 report.

GAO found overlap and fragmentation among federal programs or initiatives in a variety of areas, including IRS public referral programs and U.S. financial regulatory structure:

#### **IRS's Public Referral Programs**

Public referral, or whistleblower, programs enable individuals to submit information to IRS about tax noncompliance. They are an important piece of IRS's overall enforcement strategy and can help reduce the government's multibillion-dollar tax gap—the difference between taxes owed and those ultimately collected. GAO reported in February 2016 that IRS does not have a formal mechanism to facilitate information sharing across all nine of its referral programs, causing both the public and IRS to spend resources unnecessarily. Further, the programs involve largely manual processes, forcing IRS to spend resources reading and routing the referrals.

GAO made several recommendations to IRS, including that it establish a coordination mechanism to communicate across the programs, develop an online referral submission process, streamline the review process, and improve external communication. IRS agreed with the recommendations and plans to implement the whistleblower recommendations by October 2016.

#### **U.S. Financial Regulatory Structure**

The U.S. financial regulatory structure is complex, with responsibilities fragmented among multiple agencies with overlapping authorities. As a result, regulatory processes are sometimes inefficient, regulators oversee similar types of institutions inconsistently, and consumers are afforded different levels of protection.

Changes made by the Dodd-Frank Wall Street Reform and Consumer Protection Act are consistent with some of the characteristics of a regulatory framework, but the existing U.S. financial regulatory structure does not always ensure (1) efficient and effective oversight, (2) consistent financial oversight, and (3) consistent consumer and investor protections. For example, overlap in the regulation of securities and derivatives markets between the Securities and Exchange Commission and the Commodity Futures Trading Commission, can create the potential for inefficiencies in oversight of the markets.

In a February 2016 report, GAO suggested that Congress consider whether additional changes to the U.S. financial regulatory structure are needed. Without congressional action, it is unlikely that remaining fragmentation and overlap in the U.S. financial regulatory system can be reduced or that more effective and efficient oversight of financial institutions can be achieved.

For the all the fragmentation, overlap, and duplication related findings and suggestions for the last 6 years, see [GAO's Action Tracker](#) at:

[http://www.gao.gov/duplication/action\\_tracker/all\\_areas](http://www.gao.gov/duplication/action_tracker/all_areas).

As well as the 2016 Annual Report:

[Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits](#), GAO-16-375SP, Apr 13, 2016.

### **Recommendations to IRS for Better Prevention against Identity Theft Refund Fraud**

GAO reported on its examination of IRS's efforts to combat identity refund fraud, evaluating the performance of IRS's Taxpayer Protection Program (TPP) and assessing IRS's efforts to improve its estimates of the fraud costs. Identity refund fraud occurs when a refund-seeking fraudster obtains an individual's identifying information and uses it to file a fraudulent tax return. Despite IRS's efforts to identify and prevent identity theft refund fraud, this crime is an evolving and costly problem.

To help prevent identity theft refund fraud, TPP authenticates the identities of suspicious tax return filers by asking questions only a real taxpayer should know; however, fraudsters are still able to pass through and obtain fraudulent refunds by obtaining a taxpayer's personally identifiable information. IRS estimates that, in 2014, it prevented or recovered \$22.5 billion in attempted identity theft refund fraud, but paid \$3.1 billion in fraudulent identity refunds. However, difficulties in determining the amount of undetected identity theft refund fraud contribute to challenges in developing reliable cost estimates. In response to past GAO recommendations, IRS adopted a new methodology in an effort to improve its 2014 identity theft refund fraud cost estimates. Despite these improvements, GAO found that the estimates do not include returns that fail to meet specific refund thresholds. IRS officials said the thresholds allow IRS to prioritize its enforcement efforts. Using thresholds, though, could result in incomplete estimates and limit efforts to assess the effectiveness of IRS's defenses over time.

Further, IRS's estimates of refunds it protected from fraud are based on its official record of identity theft refund fraud, the *Global Report*. However, the report counts each time a fraudulent return is

caught by IRS defenses as a separate instance of identity theft refund fraud; since one return can be caught by multiple defenses, the return may be counted multiple times, resulting in inaccurate estimates that could impede IRS's efforts to monitor and combat this evolving threat.

GAO recommended that IRS update its TPP risk assessment and take appropriate actions to mitigate risks identified in the assessment. Noting that improved estimates would help IRS better understand how identity theft refund fraud is evading agency defenses, GAO recommended that IRS improve its cost estimates by removing refund thresholds and using return-level data where available. IRS agreed with GAO's TPP recommendations and plans to update its risk assessment. In addition, IRS took action consistent with GAO's identity theft refund fraud cost estimate recommendations.

Identity Theft and Tax Fraud: [\*IRS Needs to Update Its Risk Assessment for the Taxpayer Protection Program\*](#), GAO-16-508, May 24, 2016.

See also Podcast, [Identity Theft Refund Fraud](http://www.gao.gov/multimedia/podcasts/677925) at <http://www.gao.gov/multimedia/podcasts/677925>.

### **Strengthening Audit Organizations Worldwide**

In pursuit of its mission to strengthen accountability worldwide, GAO's Center for Audit Excellence has signed a Memorandum of Understanding (MOU) that establishes a framework for collaboration with the U.S. Agency for International Development (USAID) on training and technical assistance efforts. The goal of the agreement is to enhance the capabilities of audit organizations in developing countries.

The MOU serves to leverage the Center's audit expertise as well as USAID's in-depth knowledge of the environment in developing countries to help improve auditing capacity. The goal is to help audit offices in developing countries hone their skills in order to produce high-quality work on a regular basis and assume an effective oversight role. Capable audit institutions can also assist national efforts to track the progress of government activities.

A next step in the collaboration will be to establish a mechanism, such as a committee comprising representatives from both organizations, to coordinate activities, share information, identify capacity development opportunities, and explore financial, logistical, and technical contributions to the effort. GAO's Center for Audit Excellence was established last year to provide training, technical assistance, and related services to domestic and international accountability organizations. To ensure high-quality services while providing independence from GAO units doing routine audit and oversight work, the Center is staffed primarily by former senior-level GAO auditors and managers. Fees collected are used to support the Center's operations.

For more information, see the [Center for Audit Excellence](#) at

<http://www.gao.gov/resources/centerforauditexcellence/overview>.

## Other Recent Reports and Testimony

Program Integrity: [Views on the Use of Commercial Data Services to Help Identify Fraud and Improper Payments](#), GAO-16-624, Jun 30, 2016.

Information Security: [FDIC Implemented Controls over Financial Systems, but Further Improvements are Needed](#), GAO-16-605, Jun 29, 2016.

Information Technology: [IRS Needs to Improve Its Processes for Prioritizing and Reporting Performance of Investments](#), GAO-16-545, Jun 29, 2016.

Management Report: [Improvements Needed in CFPB's Internal Controls and Accounting Procedures](#), GAO-16-522R, Jun 13, 2016.

Management Report: [Areas for Improvement in the Federal Reserve Banks' Information Systems Controls](#), GAO-16-601R, Jun 6, 2016.

DOD Financial Management: [Greater Visibility Needed to Better Assess Audit Readiness for Property, Plant, and Equipment](#), GAO-16-383, May 26, 2016.

Federal Student Loans: [Education Could Improve Direct Loan Program Customer Service and Oversight](#), GAO-16-523, May 16, 2016.

Low-Income Housing Tax Credit: [Some Agency Practices Raise Concerns and IRS Could Improve Noncompliance Reporting and Data Collection](#), GAO-16-360, May 11, 2016.

Information Security: [Opportunities Exist for SEC to Improve Its Controls over Financial Systems and Data](#), GAO-16-493, Apr 28, 2016.

Government Efficiency and Effectiveness: [Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits](#), GAO-16-580T, Apr 27, 2016.

Data Act: [Progress Made but Significant Challenges Must Be Addressed to Ensure Full and Effective Implementation](#), GAO-16-556T, Apr 19, 2016.

Tax Filing: [IRS Needs a Comprehensive Customer Service Strategy and Needs to Better Combat Identity Theft Refund Fraud and Protect Taxpayer Data](#), GAO-16-578T, Apr 19, 2016.

Grants Management: [Actions Needed to Address Persistent Grant Closeout Timeliness and Undisbursed Balance Issues](#), GAO-16-362, Apr 14, 2016.

Nonbank Mortgage Servicers: [Existing Regulatory Oversight Could Be Strengthened](#), GAO-16-278, Apr 14, 2016.

2014 Sequestration: [Opportunities Exist to Improve Transparency of Progress Toward Deficit Reduction Goals](#), GAO-16-263, Apr 14, 2016.

Medicare: [Claim Review Programs Could Be Improved with Additional Prepayment Reviews and Better Data](#), GAO-16-394, Apr 13, 2016.

Information Security: [IRS Needs to Further Improve Controls over Taxpayer Data and Continue to Combat Identity Theft Refund Fraud](#), GAO-16-589T, Apr 12, 2016.

Medicare Advantage: [Fundamental Improvements Needed in CMS's Effort to Recover Substantial Amounts of Improper Payments](#), GAO-16-76, Apr 8, 2016.

Information Security: [IRS Needs to Further Improve Controls over Financial and Taxpayer Data](#), GAO-16-398, Mar 28, 2016.

Financial Institutions: [Fines, Penalties, and Forfeitures for Violations of Financial Crimes and Sanctions Requirements](#), GAO-16-297, Mar 22, 2016.

Small Employer Health Tax Credit: [Limited Use Continues Due to Multiple Reasons](#), GAO-16-491T, Mar 22, 2016.

Corporate Income Tax: [Most Large Profitable U.S. Corporations Paid Tax but Effective Tax Rates Differed Significantly from the Statutory Rate](#), GAO-16-363, Mar 17, 2016.

Patient Protection and Affordable Care Act: [CMS Should Act to Strengthen Enrollment Controls and Manage Fraud Risk](#), GAO-16-506T, Mar 17, 2016.

Private Health Insurance: [Federal Oversight Premiums and Enrollment for Consumer Operated and Oriented Plans in 2015](#), GAO-16-326, Mar 10, 2016.

Internal Revenue Service: [Preliminary Observations on the Fiscal Year 2017 Budget Request and 2016 Filing Season Performance](#), GAO-16-459R, Mar 8, 2016.



**ASB Update**  
**By Steve Glover**  
**Brigham Young University and Auditing Standards Board Member**

**Audit Quality and Professional Skepticism**

Prior to the May meeting the ASB submitted a comment letter on the IAASB's Invitation to Comment (ITC) on Audit Quality. The three topical areas of focus in the ITC were professional skepticism, quality control, and group audits. We applaud the IAASB's outreach efforts to receive input on these important topics. I served as a member of the task force drafting the response to the professional skepticism section. It is interesting that such a bedrock auditing concept such as professional skepticism can invoke such lively debates. A careful analysis of the current international and US auditing standards reveals that there is relatively little mention of professional skepticism and relatively little practical application guidance in standards. Focus on this fundamental concept is spurred, in part, by increased regulatory inspection findings indicating instances where auditors displayed insufficient professional skepticism. The profession is reconsidering seemingly basic questions such as, "What is professional skepticism?", "How is it evidenced in auditor's workpapers?", "Is professional skepticism more than an attitude or mindset—does it lead to action?", "Can auditors exhibit heightened levels of skepticism or is simply on or off?", "What and where are the boundaries between professional judgment and professional skepticism?" and "Should the auditing standards address judgment traps and biases?" For those interested in learning more about the issues, I encourage you to read the AICPA ASB's response as well as the Auditing Section response to the ITC which can be found [here](#). The area of professional skepticism is certainly one where auditing academics have already provided, and should continue to provide, valuable insights through scholarship and thought leadership. While there is lively debate and even strong disagreement on the answers to the basic questions being considered, there does seem to be general consensus that simply inserting the words "professional skepticism" more into the standards is not going to enhance the application of professional skepticism or improve audit quality.

**May 2016 Meeting Highlights**

**Going Concern**

The ASB voted unanimously to approve to ballot the proposed standard for exposure with a 60-day exposure period. This proposed SAS would supersede SAS No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Redrafted) (AICPA, *Professional Standards*, AU-C sec. 570). At the time SAS No. 126 was issued, the Financial Accounting Standards Board (FASB) standards did not address management's evaluation related to substantial doubt about an entity's ability to continue as a going concern. In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* codified in FASB Accounting Standards Codification as ASC 205-40 (FASB ASC 205-40). FASB ASC 205-40 provides guidance in the

FASB standards about 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 note disclosures. In January 2015, the International Auditing and Assurance Standards Board (IAASB) issued its revised auditing reporting standards which, among other things, included revisions to ISA 570. In January 2015, the ASB issued four new auditing interpretations to SAS No. 126 until a revised SAS could be proposed. The proposed SAS is written in a neutral accounting framework manner but includes revisions to AU-C section 570 to consider the provisions of FASB ASC 205-40, GASB 56, and the ISA 570, except for the auditor reporting guidance. The exposure draft includes proposed amendments to AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* and AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*.

The exposure draft will be accompanied by a “wrap” document that includes the following questions with invitation to comment:

- Is AU-C section 570 applicable to audits of single financial statements, single elements, accounts or items of a financial statement; and if so, how would the auditor apply the requirements of AU-C section 570, including concluding whether substantial doubt exists about the entity’s ability to continue as a going concern?
- If commenters believe that AU-C section 570 is not applicable to audits of single financial statements and specific elements, accounts, or items of a financial statement, is the application guidance related to risks and uncertainties sufficient in considering whether appropriate disclosures have been made?

### **Exempt Securities**

The ASB discussed the exposure draft of proposed SAS, *Auditor Involvement with Exempt Offering Documents* and the draft wrap document to accompany the exposure draft. The ASB discussed a number of changes and ultimately voted the proposed SAS to ballot for a 90-day comment period. The wrap document includes the following three issues with invitation to comment:

- Commenters are asked to provide feedback on the types of offerings included in the scope of the standard, specifically whether franchise offerings be included in the scope.
- Commenters are asked to provide feedback on the activities that trigger involvement and whether additional activities should be considered as triggers.
- Commenters are asked to provide their views as to the proposed requirement with respect to subsequent event procedures when the auditor is deemed involved with an exempt offering.

### **Auditor’s Report**

The ASB task force on auditor reporting is moving ahead to consider convergence with the IAASB standard and in the meantime the PCAOB has re-issued a proposed auditor reporting standard. Issues such as ordering of the opinion, expanded standardized language, and key audit matters were discussed. The task force will consider a framework for determining how to converge and minimize differences and a need to communicate the rationale for change. The task force’s current thinking is that communication of key audit matters would not be required for audits of non-issuers, but may be done voluntarily.

## **Reports on ERISA Audits**

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. Darrel Schubert, chair of the EBP Auditor Reporting Task Force, is leading an effort to develop an auditing standard that would provide a specific auditor's report for employee benefit plans. In the July meeting the ASB worked through a number of issues in the draft standard and report.

## **Sustainability Reporting**

The primary issue discussed is whether there should be a stand-alone sustainability-specific attest standard or whether the task force should develop a sustainability reporting audit guide. In prior meetings, the ASB agreed with the task force's recommendation to develop a stand-alone standard. However, in the May meeting, the ASB reversed their thinking and directed the task force instead to develop a sustainability reporting guide. The primary justification for the reversal of direction is that when in reviewing the draft stand-alone sustainability attest standard, it was determined that there was significant overlap with existing attest standards. Therefore, auditors can utilize existing clarified attestation standards, accompanied by an audit guide, to perform sustainability attestation engagements.

## **Specific Procedures**

The ASB heard from the Specific Procedures task force and other board members regarding the proposal to develop a standard addressing engagements to perform specified procedures. The Task Force was charged with developing an attestation standard that would result in a service in which practitioners would perform procedures and report in a procedures/findings format where no assertion would be required to be obtained and the report would not be restricted as to use. The project is unique in that it is a joint project with the Accounting and Review Services Committee (ARSC). The current plan is that both the ARSC and the ASB will be asked to vote to expose the proposed standard for public comment, to consider comments received, and to ultimately vote to issue a final standard. Both the ARSC and the ASB have the authority to issue Statements on Standards for Attestation Engagements and the ARSC is committed to the development of the proposed standard.

## **Other on-going projects**

An audit guide on Cybersecurity and audit guide on Data Analytics and the Effect on the Audit.

# Current Issues in Auditing

By Greg Jenkins

Virginia Tech University

*Current Issues in Auditing*, published by the Auditing Section of the American Accounting Association. (<http://aaapubs.org/loi/ciia/>), contains articles, commentaries, and practitioner summaries of interest to both the academic and practitioner community. Articles are published online very soon after they are accepted, so please check the website often to view newly published articles.

Also, please consider submitting your work to *Current Issues in Auditing* (website for authors: <http://ciia.allentrack.net/cgi-bin/main.plex>). We invite regular articles, commentaries related to issues confronting the auditing profession, practitioner summaries of research articles you have published, and educational resources. We also encourage articles that result from collaboration among members of the academic and professional communities. So, please consider reaching out to those you know in the profession to begin exploring projects of common interest.

We also invite you to access recently accepted articles at: <http://aaapubs.org/toc/ciia/0/0>.

We have recently accepted several pedagogical articles including:

- Extra Credit "Opportunities": A Tool to Motivate Group Interaction in the Classroom.
- Early Evidence on the Effects of Critical Audit Matters on Auditor Liability.
- Using "The Wave" to Facilitate Participants' Understanding of the Implicit Pressures Associated With the Auditing Profession.

We have also accepted other articles and commentaries of interest including:

- The Effects of Auditor Experience and Professional Commitment on Acceptance of Underreporting Time: A Moderated Mediation Analysis
- An Analysis & Taxonomy of Disclosure Controls & Procedures Effectiveness
- The Work Environment in Large Audit Firms: Current Perceptions and Possible Improvements
- Comments by the Auditing Standards Committee of the Auditing Section of the American Accounting Association on FASB Exposure Draft of Proposed Accounting Standard Update Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material

Thanks for your continued support of *Current Issues in Auditing*!

## **AAA Council Update**

### **By Urton Anderson**

### **University of Kentucky**

The AAA Council met March 19<sup>th</sup> and held a Webinar Meeting April 26<sup>th</sup> Webinar. The following is a brief summary of those meetings.

At the March meeting, AAA Executive Director Tracey Sutherland gave Council an overview of several items including AAA Professional Staff Updates and the 2016-2017 Board of Directors election (the election is closed and votes are being audited now. Election results will be announced in April.). Tracey reminded Council of the importance of the Nominations Committee and Council Ballot Committee (CBC). Council selects the five members that will be on the Nominations Committee and CBC chooses the candidates for a position on the Board of Directors. The Accounting PhD Rookie Recruiting and Research Camp will again be in Miami for 2016. The number of recruiters for the meeting has steadily been increasing over the years with 214 total recruiters at the 2015 meeting from 104 schools. Future venues will be investigated as the number of participants in the event continues to grow. AAA Membership has continued to increase, with full membership up by 4.2% from last year. Lastly, the 2016 Annual Meeting is in New York City, which has brought an increase in pricing for the Section breakfasts and lunches.

David Boynton, Gary Previts, and Bob Colson presented to Council the request that was received from the Leadership of the Academy of Accounting Historians to become a section of the AAA. A Transition Team consisting of Bruce Behn, David Boynton, Bob Colson, Dale Flesher, Gary Previts, Jennifer Reynolds-Moehrle, Mary Stone, and Tracey Sutherland has been assembled. The value proposition, governance, financials, operations and services, and publications of the AAH have all been examined and were found to be in good standing. The Management Team unanimously voted in January 2016 to support admission as an AAA Section. With unanimous support from Council, the BOD officially voted at the March 2016 Council Meeting that the AAH be admitted as a section of the AAA starting with the 2017-18 membership year (fiscal year 2018).

Julie Smith David and Steve Moehrle presented the Finance Committee Report to Council. The Finance Committee met in February and recommends to approve the budget as presented. Julie spoke about the Four Centers and the projects such as Big Data conferences that have resulted, as well as the need to continue to not only hire additional AAA staff, but to explore revenue generating opportunities. Council approved the recommendation is to increase membership dues for Full Members by \$5.00, with no increase to Student, Two-Year College or Life/Emeritus Members.

The nominees for Council Chair-Elect were discussed, and following the March Meeting, the vote took place. Markus Ahrens was elected and accepted the position as Council Chair-Elect for 2016-2017.

The names of the nominees for the AAA nominations Committee were announced and discussion about the nominees followed. Following the March Council meeting, the election for the Nominations

Committee took place, and the following five members were elected and have accepted the positions: Mark Higgins, Sarah McVay, Karen Pincus, Scott Showalter, and Jim Young.

Terry Shevlin reviewed the AAA Publications Ethics Policy Part D: Citing Corrected Articles. This policy can be found on the AAA website at:

[http://aaahq.org/Portals/0/documents/about/Policies&ProceduresManual/FINAL\\_Citing%20Corrected%20Articles\\_4-4-16jsd\\_BG3.pdf](http://aaahq.org/Portals/0/documents/about/Policies&ProceduresManual/FINAL_Citing%20Corrected%20Articles_4-4-16jsd_BG3.pdf).

Julie Smith David discussed the proposed cover redesign for the AAA journals. The Publications Committee approved a redesign for the 2017 calendar year. Julie called for volunteers comprised of Council, Editors, and Research Committees to work with Bruce Mau Design on the project. It is planned to announce the new design at the Annual Meeting.

Judy Luther of Informed Strategies served as moderator of a panel consisting of Mary Curtis (AIS), Patrick Hopkins (FARS), Jennifer Mueller-Phillips (AUD), Karen Sedatole (MAS), who all discussed “best practices” on what their Sections are doing in respect to promoting and distinguishing them among other journals. Discussions ranged from using Social Media, to having “themed” issues and guest-editors, how to attract submissions, and marketing efforts about the journal itself. Information packets from JMAR and JIS were shared with everyone, as well as flyers about special issues from JFR.

Susan Crosson, Director, Center for Advancing Accounting Education, served as the moderator of a panel consisting of Markus Ahrens (TYC), Michael Kraten (PI), Jennifer Mueller-Phillips (AUD), and Karen Sedatole (MAS), on how the use of Social Media can help promote Section activities including meetings and journals. Examples of tools such as LinkedIn, Facebook, and Twitter, as well as blogs and YouTube were discussed at length. The panel continued the discussion on how Social Media could be effectively used in the classroom. The importance of engaging with the Millennial Generation and the use of Technology such as Poll Everywhere, You Tube was stressed, in addition to the Social Media tools such as Facebook and Twitter.

Bruce Behn gave an update about the 2016 Annual Meeting and discussed the featured plenary and lunch speakers, as well as the Global Gathering on Thursday, and the Monday Evening Centennial Gala.

On the April Webinar, Tom Keogh from Bruce Mau Design gave a recap of the branding process and how the AAA’s “brand” evolved from 2009 through today culminating with the various Section & Region logos and color schemes. AAA’s Director of Information Technology, Mark VanZorn, discussed some elements of website design including how much a website is visible on typical computer screens, mobile vs. desktop views, and the concept of “ATF” – above the fold – and how to best utilize the real estate in the ATF space on websites.

The results of the Segment Leader Survey were shared where Leaders selected which categories were important to their sections to be featured on the Segment webpages. Top categories included Journals, Research, Teaching, and Awards. Two designs were presented to Council incorporating Segment logos and colors and featuring more content “ATF.” Using Poll Everywhere, comments about both Design A

and B were captured so that elements of what everyone liked from both designs can be used to create a hybrid of the best from both designs.

Committee updates were presented: There was no report to be presented from the Council Advocacy Review Committee as no activities have taken place. The Council Committee on Awards Committee is in the process of sending out invitations of who to have on the Committees. It is anticipated that there will be a 4 or 5-member Governance Task Force created to work on issues including a Guest Policy for members who attend meetings and a Review of Segments as mentioned in the Bylaws. Markus Ahrens agreed to chair the Governance Task Force. The aim is for the Guest Policy to be presented at the November Meeting and a draft policy for the Review of Segments by March 2017.

The August Council meeting will be in New York City on August 7<sup>th</sup> from 4:00 – 6:00 p.m.

If you have any issues you would like taken to Council, send them to the Auditing Section's representative Urton Anderson ([urton.anderson@uky.edu](mailto:urton.anderson@uky.edu)).

# **Auditing Standards Committee Activities Report**

**By Karl Hackenbrack**

**Vanderbilt University**

## **Comment Letters Submitted Since Fall 2015 Newsletter**

FASB Exposure Draft, *Proposed Accounting Standards Update: Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material*, submitted December 8, 2015.

Urton Anderson, Marcus Doxey, Marshall Geiger, Willie Gist, Diane Janvrin and Paul Polinski.

Comments by the Auditing Standards Committee of the Auditing Section of the American Accounting Association on FASB Exposure Draft of Proposed Accounting Standard Update Notes to Financial Statements (Topic 235): *Assessing Whether Disclosures Are Material*. *Current Issues in Auditing*, online early Mar 25, 2016.

IAASB Invitation to Comment: *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, submitted May 16, 2016

Christine Earley, Karen Hooks, Jennifer Joe, Paul Polinski, Zabihollah Rezaee, Pamela Roush, Kerri-Ann Sanderson and Yi-Jing Wu. Comments by the Auditing Standards Committee of the Auditing Section of the American Accounting Association on the IAASB Invitation to Comment: *Enhancing Audit Quality in the Public Interest*. *Current Issues in Auditing*, under review.

## **Comment Letter in Process**

PCAOB Release No. 2016-003 *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (due August 15<sup>th</sup>). Marcus Doxey, Steve Fuller, Marshall Geiger, Willie Gist, Karl Hackenbrack, Diane Janvrin, Marshall Pitman and Pamela Roush.

## **Project Teams Formed Based on AICPA, IAASB, and PCAOB Standard-Setting Agenda**

*Going Concern*. Marshall Geiger, Marshall Pitman, Paul Polinski and Sarah Stein.

*Auditing Accounting Estimates, Including Fair Value Measurement and Related Disclosures*. John Abernathy, Karl Hackenbrack, Mikhail Pevzner, Pamela Roush and Stephen Rowe.

*Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities*. Marshall Geiger, Diane Janvrin, and Sarah Stein.



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

**Tamara Lambert, Lehigh University**

**Benjamin Luippold, Babson College**

**James D. Whitworth, University of South Florida**

**“The Joint Impact of Management Expressed Confidence and Response Timing on Auditor Professional Skepticism in Client Email Inquiries” by Aleksandra Zimmerman. *Managerial Auditing Journal* 31 (6/7): 566-588.**

This study examines how the expressed confidence and timing of email responses from clients impacts auditors’ professional skepticism assessments. The author predicts an interactive effect between these two factors. That is, when the client expresses low confidence, auditors will exhibit more professional skepticism when the client delays the response than when he/she replies sooner. However, when the client expresses high confidence, timing does not affect the auditor’s professional skepticism. To test this, the author conducted a study on auditing students (as surrogates for auditors). Participants reviewed an email from a client controller about the valuation of inventory during an audit. She manipulated the confidence of the clients’ response as either high or low and the time of the response as either earlier than expected or later than expected, creating a 2x2 between-participants design. She evaluated the professional skepticism by measuring the participants’ degree of reliance on the client’s explanation, the extent of additional testing, and the likelihood of an inventory write down. The results supported the author’s prediction.

**“Do Auditor Judgment Frameworks Help in Constraining Aggressive Reporting? Evidence Under More Precise and Less Precise Accounting Standards.” by Ann Backof, E. Michael Bamber and Tina Carpenter. *Accounting, Organizations and Society* 51: 1-11.**

This study evaluates how three frameworks discourage auditors from permitting aggressive reporting in less precise standards. First, given theories related to counterfactual reasoning, the authors predict that auditors who complete a pro/con framework will be less likely to permit aggressive reporting compared to those who do not use such a framework, and that this effect is magnified when standards are less precise. Second, they posit that frameworks that encourage abstract thinking will create more professional skepticism and – therefore – be more effective than a pro/con framework. Accordingly, they hypothesize that a pro-why framework will be most effective at curbing aggressive reporting, followed by a pro/con-why framework, followed by the pro/con framework, and that these effects will also be magnified under less precise reporting standards. To test these hypotheses, the authors conducted an experiment on audit managers who evaluated the appropriateness of the client’s preferred method of accounting for leases. Participants either received one of three frameworks or no framework and the standards were either more or less precise (creating a 4x2 between participants design). Their results suggest frameworks that both encourage counterfactual thinking and enhance skepticism aid auditors in discouraging aggressive reporting, but mainly in situations where accounting standards are less precise (i.e., when more judgment is required).

**“The Influence of Mood on Subordinates’ Ability to Resist Coercive Pressure in Public Accounting.” by Eric Johnson, D. Jordan Lowe and Phillip Reckers. *Contemporary Accounting Research* 33(1): 261-287.**

This study investigates how affective mood states influence auditors’ ability to resist obedience pressures from superiors to engage in or support unethical acts. Using three separate hypotheses, the authors predict that audit seniors will be more likely to acquiesce to a manager’s unethical directives when they have (1) a lower level of perceived arousal, (2) a higher level of perceived fear, or (3) a higher level of perceived insignificance. One hundred seventy audit seniors took part in the study. To manipulate mood affective states, the authors manipulated the client CEO’s dominance and prestige (each at two levels) and the audit senior’s past work/life history (at two levels), thus creating a 2x2x2 between-participants design. They then measured the affective mood state using a modified version of the Positive Affect and Negative Affect Scale. After that, participants responded to six ethical situations that auditors might encounter during interactions with their superiors (e.g., eating time, premature signoff, etc.). Their results support their expectations that low levels of arousal, high levels of fear, or high levels of insignificance are associated with acquiescing to unethical practices.

**“Growing Pains: Audit Quality and Office Growth.” by Kenneth Bills, Quinn Swanquist and Robert Whited. *Contemporary Accounting Research* 33(1): 288-313.**

This paper considers the impact of significant growth in the size of the local office of an auditor on audit quality. Using a sample from 2005 to 2010, the authors document a transient (one-year) negative shock to audit quality in the year following a significant increase in workload. An opposite effect on audit quality following a significant decrease in workload is not supported. There is some evidence that the growth effect is partially mitigated when the auditor is part of a national network of offices, where such firms have greater resources and more reputation to protect. The authors also find that the documented effect is driven by new client growth and increases in audit work for an existing client, not growth in existing client size.

**“Audit-Client Compatibility and Audit Firm Selection.” by Stephen Brown and W. Robert Knechel. *Journal of Accounting Research* 54(3): 725-775.**

The authors view auditor changes/switches and audit quality as a function of compatibility with the auditor’s portfolio of clients using a text-based measure of similarity that examines client financial disclosures. They find clustering of clients within an audit firm based on their financial disclosure similarity measure. Findings also indicate: low comparability is associated with an auditor switch, and that the switch is often to an auditor with a more similar client portfolio; and, audit quality is higher when similarity is higher. Regarding going concern opinions, higher comparability is associated with fewer going concern reports but also with greater accuracy. In contrast to the audited portion of the 10-K, high comparability in unaudited disclosures is associated with a higher likelihood of accounting restatement. They conclude that their findings suggest auditors may have greater involvement in currently unaudited text disclosures than currently anticipated.

**“Audit fee residuals: Costs or Rents?” by Rajib Doogar, Padmakumar Sivadasan, and Ira Solomon. *Review of Accounting Studies* 20(4): 1247-1286.**

This study examines the unexplained portion of audit fees by assessing the composition of the error term from an audit fee regression, focusing on that residual's persistence and utilizing the differences between auditor changes and continuing audit relationships. The authors argue that if audit fee residuals are audit costs that are not captured by control variables, then fee residuals should persist surrounding an auditor change/switch because the new auditor likely faces the same costs. In contrast, if fee residuals are rents, they are unlikely to persist as the auditor-client relationship that spawned those rents is broken. Results of testing both views using a large sample of U.S. public companies suggest that fee residuals largely consist of a combination of audit production costs common to all auditors and noise. The authors interpret their findings to suggest that lagged residual fees can be useful predictors of expected fees in continuing and new audit engagements and that negative associations between measures of audit/financial reporting quality and audit fee residuals are best interpreted as evidence of additional auditor effort rather than an adverse impact of auditor rents on auditor independence.

## **Have you Seen...(Video Edition)?**

**Chris Hogan  
Michigan State University**

***False Assurance*  
Written and Produced by the  
Institute of Chartered Accountants in England and Wales (ICAEW)**

*False Assurance* is a high quality, exciting drama film that will inspire your students to consider a career in accounting, finance and business. The film can be used in interactive lectures and seminars to draw out many of the issues and dilemmas students will face in the business environment and illustrates how companies and boards operate through real-life scenarios. The film shows the interaction of auditors, finance directors and boards of directors. It also highlights the people skills required to manage difficult relationships and the importance of team work.

Produced by the ICAEW, *False Assurance* is the fifth film written by ICAEW Executive Director, Duncan Wiggetts. It is already being used in training by many major accountancy firms. Duncan's previous films have been used in workshops for accountants and directors all around the world. His fourth film *A Price Worth Paying?* was featured on the front page of the Wall Street Journal in July 2013. To view the trailer for the film visit [icaew.com/falseassurance](http://icaew.com/falseassurance) or visit the ICAEW stand at AAA New York conference.

## **AICPA Assurance Research Advisory Group Call for Proposals**

The American Institute of Certified Public Accountant's Assurance Research Advisory Group is currently calling for research proposals from members of the accounting education academic community. The group, comprised of representatives from academia, selected in collaboration with AAA, and public practice, will review all submissions. All accounting educators are encouraged to submit research proposals addressing private company assurance topics that are of interest to audit practitioners.

Approved research proposals are eligible for funding of up to \$15,000 and, where applicable, after obtaining consent, access to firm personnel and/or anonymized firm data gathered by the AICPA Peer Review Program will be made available. The research proposals funded by the AICPA will provide the profession with valuable insight into the factors that affect the quality of assurance services.

For more information, and to [submit a proposal](#), visit the Assurance Research Advisory Group [website](#).

**University of Florida**  
**International Conference on Assurance and Governance**  
**Call for Papers**

The International Center for Research in Accounting and Auditing (ICRAA), in conjunction with the *Journal of Accounting Literature*, is pleased to announce the fifth *University of Florida International Conference on Assurance and Governance* on January 10-11, 2017. The conference will be held at the University of Florida in Gainesville, Florida.

The first ICRAA conference was held in January 2002, shortly after the collapse of Enron and prior to the collapse of the accounting firm of Arthur Andersen and the passage of the Sarbanes-Oxley Act 2002. The events of the time overshadowed everything that was presented and discussed at the conference. Now, 15 years later, it is our intention to look back over the ensuing 15 years to address the question: “What do we know now about auditing, regulation and research that we did not know in 2002?”

We are currently soliciting papers for the conference to address this question in all of its many aspects. There is a broad range of topics suitable for the conference and submitted papers should address issues related to various aspects of auditing, assurance, control, earnings management and/or governance. Papers submitted to the conferences can also be considered as a submission to the *Journal of Accounting Literature* if the author(s) choose. Such papers will be subject to an expedited review process by the *Journal*, with most papers receiving a clear reject or submit decision after the first round of the review process.<sup>1</sup>

Authors who wish to have their papers considered for the conference should send them to:

W. Robert Knechel, Director  
International Center for Research in Accounting and Auditing  
Fisher School of Accounting  
University of Florida  
PO Box 117166  
Gainesville, FL 32611  
USA

Or by email to: [w.knechel@warrington.ufl.edu](mailto:w.knechel@warrington.ufl.edu)

When submitting, please indicate if the same paper has been submitted to the Audit Section Mid-Year Meeting.

---

<sup>1</sup> This review process will occur soon after the conference so that revisions to the paper can incorporate feedback from the conference attendees. Papers accepted to the *Journal* may be subject to a round of revisions to improve the editorial or organization structure of the paper.

We are also soliciting suggestions for panel discussions, discussants and a plenary session. Please let us know if you have suggestions for the program.

The submission deadline is August 31, 2016. Authors of accepted papers will be notified by September 30, 2016. The final version of an accepted paper will be due December 9, 2016 to provide discussants adequate time to prepare remarks. Papers will be available to attendees approximately two weeks before the conference.

The Conference is scheduled to precede the AAA Auditing Section Mid-Year Meeting to be held in Orlando Florida on January 12-14 2017. Gainesville is located approximately 100 miles from the Orlando Airport, 120 miles from the Tampa Airport and 75 miles from the Jacksonville airport. We will provide bus transportation from Gainesville to Orlando on the morning of January 12. Many airlines and rental car companies allow travelers to arrive and depart from different airports in Florida at no extra cost. Flights directly to Gainesville go through Atlanta (Delta) or Charlotte NC (American). Information about the Auditing Section Mid-Year Meeting is available at:

<http://aaahq.org/Meetings/Meeting-Info/sessionaltcd/17AUD01>

The nominal fee for the conference is \$200, which covers two breakfasts, one lunch, the conference dinner, all conference materials and bus transportation from Gainesville to Orlando (if needed). The fee will be waived for one presenter per paper. Also, up to two nights lodging will be provided for one presenter of each accepted paper. Individuals who do not submit a paper can register their interest in attending the conference or obtain additional information by sending an email to Sandy Subach ([Sandy.Subach@warrington.ufl.edu](mailto:Sandy.Subach@warrington.ufl.edu)) by October 15. Since space is limited, preference will first be given to individuals who submit papers to the conference.

A block of hotel rooms has been arranged at the Hilton Hotel and Conference Center at a rate of \$144 per night. To obtain the conference rate, please contact the hotel directly at 352-371-3600 or toll-free in the US at 1-800-HILTONS. The hotel will honor the conference rate until December 10, 2016. To receive the conference rate mention the "Journal of Accounting Literature International Conference on Audit Research."

We look forward to seeing you in Gainesville in January 2017.

## **2017 Critical Perspectives on Accounting Conference Call for Papers**

The Faculty of Business Administration of Laval University (FSA ULaval) is very proud to host The Critical Perspectives on Accounting (CPA) Conference July 3 -5, 2017. There will also be an Emerging Scholars Colloquium on July 2, 2017.

The CPA conference is an established forum for critical, radical and other interdisciplinary approaches to the study of accounting phenomena. It brings together scholars in the fields of accounting, management and the broader social science disciplines who are concerned to illustrate how deeply implicated accounting is in the allocative, social, and ecological problems of our times. As well, it attracts practitioners, policy makers and activists who are interested in these pressing issues and committed to social change.

The CPA conference will establish an inclusive and energizing atmosphere. All papers will receive a sympathetic and supportive double-blind review. A condition of paper submission is that, if accepted, the paper will be presented at 2017 Critical Perspectives on Accounting by one of the authors.

For further information, please use the following weblink :

[https://www4.fsa.ulaval.ca/wp-content/uploads/2016/01/call\\_for\\_papers-CPA\\_2017.pdf](https://www4.fsa.ulaval.ca/wp-content/uploads/2016/01/call_for_papers-CPA_2017.pdf)



# 2017 Journal of Information Systems

## Sources of Data Issue

### Call for Papers

The Journal of Information Systems (JIS) is the journal of the Accounting Information Systems (AIS) Section of the American Accounting Association ([www.jisonline.com](http://www.jisonline.com)). JIS will publish a theme issue of JIS entitled "Sources of Data." Accounting and systems researchers have recently gained access to inexpensive and plentiful research data and participants through new outlets, including online labor markets and for-profit data aggregators. Services such as Amazon's Mechanical Turk allow for rapid collection of data, and there has been significant growth in the use of participants from online markets in accounting research. Researchers are also using massive datasets from sources such as corporate transaction archives, Google Search Analytics, weather records, social media and other external data. These big data sources require data management and analytical techniques not often employed in accounting research. This theme issue seeks papers that examine opportunities and risks created by the use of these new and emerging sources of data.

All research methods are welcome, including experimental, survey, case study, archival and literature review. The editors also welcome the submission of short papers that are appropriate for publication as a Research Note. In addition to research papers, the editors would be interested in publishing commentaries and calls for action on the issues raised in the theme issue. Please contact the theme issue editors for further information. Submissions should follow the JIS editorial guidelines at [www.jisonline.com](http://www.jisonline.com). Submissions for the special issue are due on **December 15, 2016**. Earlier submission is encouraged. The co-editors of the theme issue are Jake Rose, Professor of Accounting, Victoria University of Wellington, Email: [jake.rose@vuw.ac.nz](mailto:jake.rose@vuw.ac.nz) and Ania Rose, Associate Professor, Victoria University of Wellington, Email: [ania.rose@vuw.ac.nz](mailto:ania.rose@vuw.ac.nz).

Further details are at <http://tinyurl.com/JIS-NewData>

## **Current Issues in Accounting Call for next Academic Co-Editor**

In June, 2017, the term of Greg Jenkins, Academic Co-Editor at *Current Issues in Auditing (CIIA)*, will come to an end. In accordance with our Operating Manual, the Executive Committee has appointed a Co-Editor Nominations Committee to identify the next Academic Co-Editor. The committee is being chaired by Past-President, Chris Hogan (Michigan State University). The remainder of the committee includes Greg Jenkins (Virginia Tech University), Dan Sunderland (Deloitte), Rich Houston (University of Alabama) and Dorsey Baskin (Grant Thornton). Greg and Dan are current Co-Editors and Rich and Dorsey are past Co-Editors of *CIIA*.

*Current Issues in Auditing* is devoted to advancing the dialogue between academics and practitioners on current issues facing the auditing practice community (e.g., new opportunities and challenges, emerging areas, global developments, effects of new regulations or pronouncements, and effects of technological or market developments on audit processes.) The Editor team consists of one academic co-editor and one co-editor from practice.

The Nominations Committee is now accepting nominations for the next academic co-editor of *Current Issues in Auditing (CIIA)*. The academic co-editor's duties should include, but are not limited to, the following:

1. Manage the submission, review and acceptance of manuscripts submitted to *CIIA*.
2. Appoint members of the Review Board for *CIIA*.
3. Select ad hoc reviewers as appropriate.
4. Work with the AAA Executive Offices to assure timely publication.
5. Co-editors also may invite commissioned papers from thought leaders in the academic, practice, and regulatory communities.
6. Manage transition to the new co-editor.
7. Submit an annual report to the Executive Committee.

The Academic Co-Editor of *CIIA* should possess the following characteristics:

- Breadth of understanding of the auditing literature and research methods.
- Understanding of auditing practice and an appreciation for the practice community.
- Experience with the editorial review process.
- Integrity and open-mindedness.
- Demonstrated organizational skills and effective collaboration with peers.
- An ability to critically analyze research.
- An ability to communicate effectively and timely with authors, providing constructive feedback about their research.

Please submit your nominations (self-nominations are encouraged and certainly appropriate) to Chris Hogan (hogan@broad.msu.edu) by August 31, 2016.