



Report of the President

Mark H. Taylor



Greetings from Northeast Ohio, where beautiful fall colors are portending the onset of cooler weather. As I write the first of three commentaries that will appear in The Auditor's Report during my term as the Section's President, I've had occasion to look back on my involvement in the Auditing Section over 20 years. I can truly say that my participation in Auditing Section meetings, committees, initiatives, and other opportunities

has greatly enriched my career, for which I am very grateful. Thinking about what my professional life would be like without the impact of involvement in the Auditing Section is not a pretty picture. I find myself among the very fortunate who found their professional calling in auditing, and in academia, and blessed to have had the Section as a platform for connecting, serving, and receiving the benefits of years of involvement with amazing colleagues from all over the country and the world. This last spring, summer and fall as I contacted nearly ninety Section members to chair and staff the numerous committees and also received reports of so many who responded to invitations to review and discuss papers for the annual meeting and for the upcoming Midyear Meeting, I had opportunity to observe the many parts and pieces that make up the tremendous work that goes on behind the scenes, as it were, to fulfill the Section's mission. I am struck by the enthusiasm with which Section members embrace these service opportunities and the energy they expend to move forward. Thanks to all who make the Auditing Section an outstanding place to serve, learn and grow professionally. Needless to say, I am humbled and honored to serve as the Section's President and commit to work hard to continue to build upon the efforts of so many who have made the Section so great. Thank you!

2013 Annual Meeting in Anaheim, CA

Although the AAA Annual meeting occurred in August, it seems as if it were only a few weeks ago. Thanks to the Annual Meeting Program Planning Committee, Chan Li, Mark Zimbelman and K. (Raghu) Raghunandan for their work in organizing the Annual Meeting Program in Anaheim. The committee received nearly 200 submissions and worked diligently to allocate the papers to reviewers and later the accepted papers to sessions and discussants. With each paper requiring two reviews, the review process is a significant undertaking. All of that effort resulted in numerous concurrent sessions. I hope that if you attended the annual meeting, you found the sessions and

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Spring 2014 Issue Deadline

The deadline for material to be included in the Spring 2013 issue of The Auditor's Report is February 15, 2014. The preferred format is a Word file attached to an e-mail message. We are also

panels worthwhile in a way that helped you move forward with your research and teaching. One of the highlights of the program was the Center for Audit Quality (CAQ) Panel. CAQ Executive Director Cindy Fornelli moderated a panel on professional skepticism. Panelists included PCAOB Board Member Jeanette Franzel, Section member Doug Prawitt, and Joe Ucuzoglu of Deloitte. The CAQ also hosted a symposium in conjunction with the Annual Meeting that brought together senior audit partners and academic scholars to discuss issues important to the profession for which academic research could help inform practice. Two panels were held at the symposium; one addressing challenges facing Audit Committees; the other addressing Future Challenges Facing the Profession.

The Auditing Section Luncheon at the Annual Meeting is the point at which annual changes to the Executive Committee are made. We thanked Scott Showalter for a job well done as Vice-President–Academic, President and Past President and congratulated Karla Johnstone for her excellent service as Treasurer. We also welcomed Christine Early to the committee as the new Treasurer and Jay Thibodeau as Vice President–Academic (President Elect). The remaining members of the committee include Roger Martin, who moved into the position of Past President; Darrel Schubert, Vice-President–Practice; Jackie Hammersley, Secretary; and Mark Beasley, Historian. Also note that Audrey Gramling works with the Executive Committee as the Section's AAA Council Representative. As you have questions or suggestions about Section activities and initiatives, please contact any one of the Executive Committee members or the various Committee Chairs. Contact information for all of these individuals can be found [here](#).

#### **Additional Resources Available to Members**

A number of resources that have been made available since the annual meeting that may be helpful in the classroom as well as for research are as follows. First, the CAQ made arrangements to record the CAQ panel at the AAA meeting as well as the two panels at the CAQ symposium. Those videos have been posted on the CAQ website and can be found [here](#).

In addition, the Standards Working Group (SWG) of the Global Public Policy Committee (GPPC) has published [Enhancing Auditor Professional Skepticism](#). The GPPC, a global forum of representatives from the six largest international accounting networks, commissioned Auditing Section members Steve Glover and Doug Prawitt to produce this as a part of the GPPC's commitment to improving the quality of financial statement audits. The report is available on the CAQ website [here](#). The ideas presented in in the manuscript are not intended as concrete recommendations or specific application guidance, but they can provoke further discussion, with the objective of enhancing professional skepticism in practice, and, ultimately, improving audit quality.

Finally, many of you may be aware that earlier this year, EY published *Audit Committee Reporting to Shareholders: Going Beyond the Minimum*. That review was based on 2012 reporting. Subsequent to the annual meeting, EY informed the Section that its Corporate Governance Center issued an update to that report based on the 2013 proxy season disclosures. For those who are interested, the updated report can be accessed [here](#).

#### **PCAOB Fellowship**

open to any proposals for materials that anyone would like to submit. Please send all material and proposals to the incoming Editor at the address below by February 15, 2014, to ensure timely publication of the issue:

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You may have seen the October 21, 2013 email the Section sent announcing an academic fellowship in the Office of Research at the Public Company Accounting Oversight Board (PCAOB) for the upcoming 2014-15 academic year. This is great news from the PCAOB. If you've ever considered spending a year in a professional fellowship, I strongly encourage you to consider the fellowship. Having served a Fellowship in the Professional Practice Group of the Office of the Chief Accountant at the Securities and Exchange Commission, I can attest that serving in such fellowships is a remarkable professional experience. The opportunity to be involved with and contribute to policy matter is engaging and fulfilling. More information about the PCAOB fellowship can be found in this issue of *The Auditor's Report*.

### **2014 Midyear Meeting in San Antonio, TX**

One hundred fifty... One hundred fifty... That's the number of paid registrants who attended the first Auditing Section Midyear Meeting (MYM) in January of 1995 in Las Vegas. In contrast, last year for the Section's 19th MYM, our registration got close to triple that number. We have come a long way since that first meeting in 1995, and I hope you're as excited as I am about the Auditing Section's 20th MYM in San Antonio January 16-18, 2014 at the San Antonio Marriott Riverwalk. It's a significant milestone! I was in my first year as an assistant professor when I attended the inaugural meeting in Las Vegas in January of 1995. What a great event in which to participate during the first year as an assistant professor! Since that meeting, which was a resounding success, I have viewed the Auditing Section MYM as an important venue for participating in the Auditing Section. KPMG sponsored that first MYM and we're very grateful that KPMG has agreed to renew a three-year commitment to sponsor the MYM. Thanks to the MYM Program Planning Committee Co-Chairs Susan Scholz and Rick Hatfield along with Vice-Chairs Julia Higgs and Rani Hoitash, the meeting is shaping up to be a memorable one. As is typical, the program will include plenary sessions, concurrent sessions and panels addressing a wide variety of contemporary topics related to audit and assurance research, practice, and education. We're very excited that the Friday morning plenary session will feature an open discussion with Joseph (Joe) Ucuzoglu, National Managing Partner—Regulatory and Professional Matters at Deloitte; and we're also very excited that the Saturday morning plenary session will feature an open discussion with New York Times Best Selling Author and University of Illinois Professor of Psychology Daniel Simons. We greatly appreciate EY for generously sponsoring Daniel's presentation.

The MYM program will again include a pre-meeting Excellence in Auditing Education Workshop sponsored by the Section's Education Committee during the afternoon of January 16, 2014. We appreciate Tom Kozloski, Vice-Chair of the Education Committee for heading up this event. The workshop will explore the opportunities, challenges and successful methods of integrating the KPMG Audit Judgment Framework into the classroom with instructors Scott Showalter, Steve Glover and others. Pre-registration for the Workshop is required and includes a separate registration fee. Seating is limited, so register early. See the meeting registration page for further details here. The MYM will also be preceded on January 16, 2014 by the Doctoral Consortium organized by Consortium Chair Jeff Cohen. If you've experienced Jeff's enthusiasm, then you know that the agenda for the Consortium will be an excellent one as well.

In commemoration of the Auditing Section's 20th Annual MYM, two additional special activities are planned. First, Section members may choose to participate in an optional service project. In the spirit of service for which the Section membership is often recognized, I invite you to consider joining members in providing school supplies for at-risk children in the San Antonio area. These children are under the care of St. Peter-St. Joseph Children's Home, which cares for abused, neglected, abandoned, and homeless children. You can support one child for \$20 or consider supporting more than one child! Donation information is included on the meeting registration form. All donated funds will go towards purchasing school supplies. If you wish to participate, but are unable to process a donation via the registration system, AAA will be accepting donations at the meeting.

We thank former Section President Audrey Gramling for coordinating this activity. I have personally sponsored a number of children and encourage you to do the same if you are so inclined.

Second, an exciting and fun commemorative event will be held during the Friday evening reception immediately following the Section's Business Meeting. Organized by Karla Johnstone and Linda McDaniel, the event will include a video retrospective with numerous members of the Section along with a competitive trivia game and prizes, music, beverages and hors d'oeuvres. Undoubtedly, this will be a memorable event.

We certainly hope you'll join us at the 20th Annual Midyear Meeting in San Antonio. If you have not yet registered for the MYM, you can find the registration link [here](#).

#### **Final Note**

I know that our newsletter editor Larry Abbott and associate editor Tamara Lambert spend a significant amount of time putting together each issue of *The Auditor's Report*. With all of the parts and pieces they have to pull together, it can sometimes be a daunting task. We appreciate their efforts and I hope you find this issue of *The Auditor's Report* informative. Thanks again to Larry and Tamara, and thanks to all Section members who have supported and participated in the many Section meetings, committees and initiatives to make the Auditing Section such an outstanding organization. I hope to see you in San Antonio in January 2014 at the Section's 20th Annual Midyear Meeting!

Mark H. Taylor  
President



## PCAOB Update — Fall 2013

**Martin F. Baumann, PCAOB Chief Auditor**  
**Gregory Scates, PCAOB Deputy Chief Auditor**  
**Dima Andriyenko, PCAOB Associate Chief Auditor**

### Introduction

This Update addresses selected PCAOB developments since the Summer 2013 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments discussed include:

- Proposed Standards on the Auditor's Reporting Model
- Second Progress Report on the Interim Inspection Program for Broker and Dealer Auditors
- Adoption of Standards for Broker-Dealer Audits and for Auditing Supplemental Information
- PCAOB Investor Advisory Group Meeting
- Settled Disciplinary Order Against Deloitte & Touche
- Staff Audit Practice Alert Issued in Light of Deficiencies Observed in Audits of Internal Control Over Financial Reporting

### August 2013

#### **Proposed Standards on the Auditor's Reporting Model**

On August 13, 2013, the Board proposed for public comment two new auditing standards to enhance the auditor's reporting model:

- *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (the "proposed auditor reporting standard"), which would supersede portions of AU sec. 508, *Reports on Audited Financial Statements*, and
- *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report* (the "proposed other information standard"), which would supersede AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*.

The proposed auditor reporting standard would retain the pass/fail model in the existing auditor's report, but would provide additional information to investors and other financial statement users about the audit and the auditor. The proposed auditor reporting standard would require:

- The communication of critical audit matters as determined by the auditor;
- The addition of new elements to the auditor's report related to auditor independence, auditor tenure, and the auditor's responsibilities for, and the results of, the auditor's evaluation of other information outside the financial statements; and

Enhancements to existing language in the auditor's report related to the auditor's responsibilities for fraud and notes to the financial statements.

The proposed other information standard describes the scope of "other information" and procedures the auditor is required to perform, including procedures when the auditor identifies a material inconsistency between the other information and the audited financial statements, a material misstatement of fact, or both.

The proposed standards and related amendments are available on the PCAOB website at:

[http://pcaobus.org/Rules/Rulemaking/Docket034/Release\\_2013-005\\_ARM.pdf](http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf).

### **Second Progress Report on the Interim Inspection Program for Broker and Dealer Auditors**

On August 19, 2013, the PCAOB released its second progress report on the interim inspection program for auditors of brokers and dealers, covering the audit deficiencies and independence findings identified in inspections performed from March 2012 to December 2012.

For this report, PCAOB inspectors reviewed 43 audit firms covering portions of 60 audits of brokers and dealers registered with the Securities and Exchange Commission. Of the 43 audit firms inspected, 19 were subject to regular PCAOB inspection, as they also audited public companies or other issuers. The remaining 24 firms were not subject to PCAOB inspection other than under the interim inspection program.

Deficiencies were noted in the audits of all of the firms inspected, and in 95 percent (57 of 60) of the individual audits selected for inspection. Inspection staff did not identify deficiencies in every selected portion of the audits.

Audit deficiencies were most frequently noted with respect to:

- Audit procedures related to the computations of the customer reserve and net capital requirements, and
- Audit procedures related to financial statement areas, including procedures regarding tests of revenue, related parties, and the risk of material misstatement due to fraud.

In addition, Inspection staff found that, contrary to the requirements of SEC independence rules, some auditors were involved in the preparation of the financial statements that they audited. Independence findings were identified in more than one-third (22 of 60) of the audits selected for inspection, and in approximately 80 percent of the audits selected for inspection that were performed by firms that audited brokers and dealers but did not audit issuers.

A copy of the report is available on the PCAOB web site at:

[http://pcaobus.org/Inspections/Documents/BD\\_Interim\\_Inspection\\_Program\\_2013.pdf](http://pcaobus.org/Inspections/Documents/BD_Interim_Inspection_Program_2013.pdf).

### **October 2013**

#### **Adoption of Standards for Broker-Dealer Audits and for Auditing Supplemental Information**

On October 10, 2013, the PCAOB adopted an auditing standard and two attestation standards pertaining to the audits of brokers and dealers:

- Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, which supersedes the Board's interim auditing standard, AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*,

*Attestation Standard No. 1, Examination Engagements Regarding Compliance Reports of Brokers and Dealers, and*

- *Attestation Standard No. 2, Review Engagements Regarding Exemption Reports of Brokers and Dealers.*

The adopted auditing standard establishes the auditor's responsibilities when engaged to perform audit procedures and report on supplemental information that accompanies the audited financial statements. Supplemental information includes the supporting schedules that broker-dealers are required to file with the Securities and Exchange Commission (SEC). Auditing Standard No. 17 and related amendments, if approved by the SEC, will be effective for reports on supplemental information that accompanies financial statements for fiscal years ending on or after June 1, 2014.

The two attestation standards cover the auditor's examination of compliance reports and the auditor's review of exemption reports. The requirements for broker-dealers to prepare compliance or exemption reports, and for PCAOB-registered auditors to examine or review such reports, are new requirements included in the SEC's recent amendments to Exchange Act Rule 17a-5. The compliance and exemption reports contain statements made by broker-dealers regarding compliance with key SEC financial responsibility rules, including those involving the safekeeping of customer assets or with applicable conditions for exemption. The two attestation standards will be effective, subject to approval by the SEC, for examination engagements and review engagements of fiscal years ending on or after June 1, 2014.

A copy of the adopted auditing standard is available on the PCAOB web site at:

[http://pcaobus.org/Rules/Rulemaking/Docket036/PCAOB\\_Release\\_2013\\_008.pdf](http://pcaobus.org/Rules/Rulemaking/Docket036/PCAOB_Release_2013_008.pdf).

Copies of the two adopted attestation standards are available on the PCAOB web site at:

[http://pcaobus.org/Rules/Rulemaking/Docket035/PCAOB\\_Release\\_2013\\_007.pdf](http://pcaobus.org/Rules/Rulemaking/Docket035/PCAOB_Release_2013_007.pdf).

### **PCAOB Investor Advisory Group Meeting**

On October 16, 2013, the PCAOB held its fourth Investor Advisory Group meeting. The PCAOB Investor Advisory Group is a forum for the investor community to provide the Board with views and advice on matters affecting investors and the work of the PCAOB.

The meeting agenda and other related materials can be found on the PCAOB web site at:

[http://pcaobus.org/News/Events/Pages/10162013\\_IAGMeeting.aspx](http://pcaobus.org/News/Events/Pages/10162013_IAGMeeting.aspx).

### **Settled Disciplinary Order Against Deloitte & Touche**

On October 22, 2013, the PCAOB announced a settled disciplinary order censuring Deloitte & Touche LLP and imposing a \$2 million civil money penalty against the firm for violating the Sarbanes-Oxley Act and PCAOB rules by permitting a former partner to perform or continue to perform activities as an "associated person" that were prohibited while he was subject to a PCAOB suspension order.

The Board also ordered Deloitte to undertake certain remedial actions to ensure that similar violations do not occur in the future. Deloitte consented to the entry of the order without admitting or denying the Board's findings.

A copy of the order is available on the PCAOB web site at:

[http://pcaobus.org/Enforcement/Decisions/Documents/10222013\\_Deloitte.pdf](http://pcaobus.org/Enforcement/Decisions/Documents/10222013_Deloitte.pdf).

### **Staff Audit Practice Alert Issued in Light of Deficiencies Observed in Audits of Internal Control Over Financial Reporting**

On October 24, 2013, the PCAOB issued a Staff Audit Practice Alert in light of a significant number of audit deficiencies observed in the past three years related to audits of internal control over financial reporting (ICFR). [Staff Audit Practice Alert No. 11, Considerations for Audits of Internal Control Over Financial Reporting](#), discusses the application of certain requirements of Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, and other PCAOB standards to specific aspects of audits of internal control.

Specifically, the alert discusses:

- *Auditors' risk assessment and the audit of internal control;*
- *Selecting controls to test;*
- *Testing management review controls;*
- *Information technology considerations, including system-generated data and reports;*
- *Roll-forward of control testing performed at an interim date;*
- *Using the work of others; and*
- *Evaluating identified control deficiencies.*

A copy of the Staff Audit Practice Alert No. 11 is available on the PCAOB web site at:

[http://pcaobus.org/Standards/QandA/10-24-2013\\_SAPA\\_11.pdf](http://pcaobus.org/Standards/QandA/10-24-2013_SAPA_11.pdf).

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## GAO Update

### Steve Sebastian and Maxine Hattery

#### Proposed Revision of Internal Control Standards Ready for Comment

In 1983, GAO issued the first set of standards for internal control in government to comply with a congressional mandate. With the growing importance of information technology, and changes to standards for the private sector, the standards were revised in 1999. For the 21st century, proposed changes to the standards reflect major developments in government accountability and financial management.

GAO considers public comment on proposed changes a critical part of an extensive, deliberative process that also includes input from the Green Book Advisory Council. The council consists of experts in financial management drawn from federal, state, and local government; the private sector; public accounting; and academia. Members serve two-year terms and may be reappointed by the Comptroller General. The 21 current members are listed on the Green Book webpage.

The 81-page 2013 Exposure Draft is now available for comment on GAO's website. There you can find the draft and previous editions, along with other related resources. Once comment letters are received and reviewed, GAO will post them to the site.

Proposed changes emphasize specific considerations applicable to the government environment. Quasi-governmental entities and not-for-profit organizations may also apply the standards as a framework for an internal control system. Reinforcing management's responsibility for internal control, the revised standards provide managers with criteria for designing, implementing, and operating an internal control system.

The standards retain the five components of internal control—control environment, risk assessment, control activities, information and communication, and monitoring—and introduce 17 related principles adopted from the May 2013 revision of the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control: Integrated Framework* and adapted for the government environment. The revision also introduces "attributes" that support the principles and further define the requirements for an effective internal control system.

When issued in final form, this revision will supersede the November 1999 revision of the standards. The effective date for the revised standards, along with guidance for making the transition, will be published in the Green Book when issued in final form.

GAO encourages all interested parties to comment on the Green Book Exposure Draft. The comment period runs from September 3, 2013 through December 2, 2013. Please send your comments to [GreenBook@gao.gov](mailto:GreenBook@gao.gov).

Green Book Exposure Draft, Standards for Internal Control in the Federal Government: 2013 Exposure Draft. (824386) [[podcast included](#)] [GAO-13-830SP](#), September 3.

## **International Standards and Cooperation to Meet the Challenges of Global Finance**

Work in progress on an important set of international principles and standards was highlighted by Comptroller General Gene L. Dodaro in a videotaped keynote address to the 16th Pacific Association of the Supreme Audit Institutions Congress meeting in Guam ([GAO-13-867CG](#)), September 9.

In his address, Mr. Dodaro identified international standards as the first of three areas requiring international cooperation and solution. The first comprehensive set of international standards for supreme audit institutions (ISSAI) was issued in 2010 by the International Organization of Supreme Audit Institutions (INTOSAI), and Mr. Dodaro emphasized the importance of their worldwide implementation.

The new standards aim to safeguard independent and effective auditing. The ISSAI Implementation Initiative, or 3i Programme, with funding from the World Bank, is working to foster the implementation and application of the standards, including proposed revisions to Fundamental Auditing Principles along with several new ISSAIs.

The 3i Programme exemplifies the second area of cooperation Mr. Dodaro identified. It is a project of the INTOSAI-Donor Cooperation Initiative, which began in 2009 when fifteen donor organizations and countries agreed to cooperate in strengthening support for the SAI community in developing countries. As the Vice Chair for INTOSAI of the INTOSAI-Donor Cooperation's Steering Committee, Mr. Dodaro outlined some of the committee's current activities, including a new Global Call for Proposals, with workshops at the regional level for developing proposals; actions related to extractive-industries audits; the results of SAI reforms; citizen engagement with SAIs; and a fund for SAI capacity building.

Finally, a current challenge that is confronting almost all of us, Mr. Dodaro said, is the aftereffects of the global financial crisis. As Chairman of INTOSAI's new Working Group on Financial Modernization and Regulatory Reform, Mr. Dodaro said that the group is intended to build expertise and capabilities to meet the challenges in overseeing today's global financial system. Among the group's projects for the coming year is establishing an annual report that will summarize what is known about financial reforms, including their nature, scope, and status. Working together, Mr. Dodaro concluded, SAIs can help solve problems that confront us all.

### **GAO Executive Wins "Service to America" Medal**

The leader of GAO's work in financial markets has won the prestigious Service to America Medal for her accomplishments in 20 years of federal service. Orice Williams Brown, Managing Director of the Financial Markets and Community Investment team at GAO, is the recipient of a 2013 Samuel J. Heyman Service to America Medal, the Partnership for Public Service announced earlier this month. Brown received her award at a ceremony held in Washington, D.C., October 3.

Brown was cited for her career efforts to provide Congress with quality information and analysis on financial regulatory issues. Brown won in the category of career achievement, which is given to a federal employee with at least 20 years of federal service and a record of significant accomplishments.

Among her assignments, Brown directed reports mandated by the Dodd-Frank legislation, the first comprehensive audit of the Federal Reserve's emergency lending practices, and oversight of GAO audits of the Troubled Asset Relief Program.

"Orice's contributions and impact over the course of her federal career make her an excellent choice for this award," said Comptroller General Gene L. Dodaro. "Orice has led assignments at GAO on issues of great importance to our nation, including studies on critical risks to the U.S. financial system and our government's responses to the recent financial crisis. To that work, she has brought impressive professional abilities, a commitment to excellence, and personal integrity."

Ms. Brown said, "I was drawn to GAO because of its mission to improve government

and hold agencies and programs accountable, and I'm very proud that the Partnership decided my efforts here merited a career achievement medal."

Ms. Brown is profiled at

<http://servicetoamericamedals.org/SAM/finalists/cam/brown.shtml>.

### **GAO Offers Widgets for Reports and Legal Decisions**

It turns out the universal manufacturing product discussed across decades of economics classes is not a hammer, nail, interfrictious fiber fastener, or buggy whip. The "widget" is a software application that allows one website to interface with another. GAO now has two of them that allow users to share recent GAO reports and legal decisions on their own web pages. The widgets—one for reports, another for legal decisions—will automatically provide participating web pages with up-to-date GAO content.

The widget effort is the most recent in a series of GAO initiatives to communicate our work through different channels, including a [Twitter](#) account, a [Facebook](#) page, live streaming [video web chats](#), [podcasts](#), and [iPhone](#) and [Android mobile applications](#).

To install a widget, site administrators, webmasters, and bloggers will need to add a little code to their site. For more information about widget code for GAO reports and legal decisions, see [http://www.gao.gov/widgets\\_reports\\_and\\_legal.html](http://www.gao.gov/widgets_reports_and_legal.html).

### **Recent Reports**

Budget Issues: Key Questions to Consider When Evaluating Balances in Federal Accounts. [GAO-13-798](#), September 30, 2013.

Community Colleges: New Federal Research Center May Enhance Current Understanding Of Developmental Education. [GAO-13-656](#), September 10.

Homeland Defense: Action Needed to Improve Cost Reporting for DOD's Aerospace Control Alert Mission. [GAO-13-785](#), September 9

FHA Mortgage Insurance: Applicability of Industry Requirements Is Limited, but Certain Features Could Enhance Oversight. [GAO-13-722](#), September 9.

Small Business Research Programs: Actions Needed to Improve Compliance With Spending and Reporting Requirements. [GAO-13-421](#), September 9.

Troubled Asset Relief Program: GAO's Oversight of the Troubled Asset Relief Program Activities. [GAO-13-840R](#), September 6.

Automatic IRAs: Lower-Earning Households Could Realize Increases in Retirement Income. [GAO-13-699](#), August 23.

Corporate Tax Compliance: IRS Should Determine Whether Its Streamlined Corporate Audit Process Is Meeting Its Goals. [GAO-13-662](#), August 22.

DOD Financial Management: Ineffective Risk Management Could Impair Progress toward Audit-Ready Financial Statements. [GAO-13-123](#), August 2

Insurance Markets: Impacts of and Regulatory Response to the 2007-2009 Financial Crisis. [GAO-13-583](#), June 27.

Executive Branch Should More Fully Implement the GPRA Modernization Act to Address Pressing Governance Challenges. [GAO-13-518](#), June 26, 2013

Tax Refunds: IRS Is Exploring Verification Improvements, but Needs to Better Manage Risks. [GAO-13-515](#), June 4.

## **Recent Testimony**

Haiti Reconstruction: USAID Infrastructure Projects Have Had Mixed Results and Face Sustainability Challenges. [GAO-14-47T](#), October 9, 2013

Performance Auditing: The Experiences of the United States Government Accountability Office, [GAO-13-868T](#), September 25.

2020 Census: Progress Report on the Census Bureau's Efforts to Contain Enumeration Costs, [GAO-13-857T](#), September 11.

Delphi Pension Plans: Key Events Leading to Plan Terminations. [GAO-13-854T](#), September 11.

Education Research: Preliminary Observations on the Relevance and Dissemination Efforts of the Institute of Education Sciences. [GAO-13-852T](#), September 10.

Financial and Performance Management: More Reliable and Complete Information Needed to Address Federal Management and Fiscal Challenges, [GAO-13-752T](#), July 10.

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## ASB Update

### Kay Tatum

In 2013 the Auditing Standards Board (ASB) devoted the majority of its efforts to the clarification and convergence of the Statements on Standards for Attestation Engagements (SSAEs). The attestation standards are being redrafted in accordance with the ASB's clarity drafting conventions and converged with the International Standards on Assurance Engagements (ISAEs) issued by the International Auditing and Assurance Standards Board (IAASB). The ASB also monitored the IAASB and PCAOB auditor's report projects and various accounting and auditing standard-setting activities about going concern.

#### General Attestation Standards

At its May 2013 meeting the ASB voted to expose proposed SSAE, *Attestation Standards: Clarification and Recodification*. The proposed standard consists of four chapters:

- Chapter 1, "General Concepts"
- Chapter 2, "Examination Engagements"
- Chapter 3, "Review Engagements"
- Chapter 4, "Agreed-Upon Procedures Engagements"

The proposed chapters, referred to as the general attestation standards, replace extant standards AT section 20, *Defining Professional Requirement in Statements on Standards for Attestation Engagements*; AT section 50, *SSAE Hierarchy*; AT section 101, *Attest Engagements*; and AT section 201, *Agreed-Upon Procedures Engagements*.

Although the mandate of the project is to clarify and converge rather than to update the attestation standards, the proposed standard contains some significant differences from the existing standards. The proposed standard:

- Requires a written assertion in all examinations and reviews, thereby eliminating certain exceptions when the engaging party is not the responsible party.
- Requires representation letters in examination and review engagements, unlike current standards that suggest them.
- Requires risk assessment for examination engagements, which requires an increased understanding of the development of the subject matter in order to better identify the risks of material misstatement.
- Incorporates a number of detailed requirements in the Statements on Auditing Standards (SASs), thereby eliminating references to the SASs when applying it.
- Restructures the attestation standards so that concepts that are common to all engagements are contained in Chapter 1. Additional standards specific to examinations, reviews, and agreed-upon procedures engagements are presented in Chapters 2, 3, and 4, respectively.
- Separates the discussion of reviews from examinations, which highlights the similarity of a review under the attestation standards to a review under the Statements on Standards for Accounting and Review Services.
- Indicates that when there is a client imposed scope limitation, the practitioner should express a qualified opinion, a disclaimer, or withdraw from the engagement. Current standards state

that the practitioner generally should disclaim an opinion or withdraw.

The proposed standard was posted for comment on July 24, 2013, and the comment period ended on October 24, 2013. Seventeen comment letters were received. The Board will consider the proposed standard and the respondents' comments at its January 2014 meeting.

### **Subject-Specific Attestation Standards**

At its October 2013 meeting the ASB voted to ballot for exposure the proposed SSAE, *Subject-Matter Specific Attestation Standards: Clarification and Recodification*. The exposure draft consists of four chapters:

- "Financial Forecasts and Projections," which would supersede extant AT section 301
- "Reporting on Pro Forma Financial Information," which would supersede extant AT section 401
- "Compliance Attestation," which would supersede extant AT section 601
- "Reporting on Controls at a Service Organization," which would supersede extant AT section 801

These subject-matter specific chapters build on Chapters 1-4 of the July 2013 exposure draft (the general chapters). The exposure draft does not include chapters for extant AT section 501, *Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, and AT section 701, *Management's Discussion and Analysis*. The ASB intends to revise and issue the internal control standard as a SAS, which will be exposed in the future. The ASB agreed not to clarify the management's discussion and analysis standard because practitioners report that they rarely perform these engagements. It will be retained in the attestation standards in its current form. As of the writing of this column, the proposed standard's exposure date and comment deadline date have not been determined.

The attestation task force is chaired by Don Pallais, ASB member, and staffed by Judith Sherinsky, AICPA Senior Technical Manager.

### **Auditor Reporting, Including Going Concern**

The ASB is monitoring the IAASB and PCAOB auditor's report projects. On July 25, 2013 the IAASB issued an exposure draft entitled *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*. Comments are due by November 22, 2013. On August 13, 2013, The PCAOB issued Release No. 2013-005, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendment to PCAOB Standards*. Comments are due by December 11, 2013. In light of the ASB's commitment to convergence with international standards while avoiding unnecessary differences with PCAOB standards, the proposed standards, if adopted, will impact AU-C 700 *Forming an Opinion and Reporting on Financial Statements* and related sections. The ASB will respond to the IAASB exposure draft. At its October 2013 meeting, the ASB reviewed a draft of the comment letter, which is being prepared from the perspective of a nonissuer under generally accepted auditing standards. The Center for Audit Quality will respond to the PCAOB's auditor reporting proposal.

The ASB's is also monitoring a variety of going concern activities. On June 26, 2013, the FASB issued Proposed Standards Update, *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption*. The comment period ended on September 24, 2013. The IAASB proposed additional communications in the auditor's report about going concern matters in its July 25, 2013 exposure draft. The PCAOB has a project on its agenda to review the standards that set forth the auditor's responsibilities related to going concern matters. The ASB reviewed comments to the FASB's exposure draft at its October meeting, and it will review comments to the IAASB exposure draft at its January 2014 meeting. At that time, the ASB will discuss possible changes to AU-C 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

The ASB's auditor reporting task force is chaired by Mike Santay, ASB member and Grant Thornton partner. Linda Delahanty, AICPA Senior Technical Manager, staffs the task force. The ASB's going concern task force is chaired by Marc Panucci, ASB member and PricewaterhouseCoopers partner,

and is staffed by Hiram Hasty, AICPA Senior Technical Manager.

### **Future Meetings**

The ASB's next meeting will be in San Deigo, CA on January 7-9, 2014. The dates of past and future meetings of the ASB, as well as previous meeting highlights, can be found at <http://www.aicpa.org/research/standards/auditattest/asb/pages/asbmeetingmaterialsandhighlights.aspx>.

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# THE AUDITOR'S REPORT

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AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Current Issues in Auditing

Rich Houston

*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 and commentaries (including those related to the various projects currently being considered by the PCAOB) as well as practitioner summaries and educational resources.

We also invite you to access recently accepted articles not yet online in the journal at: <http://aaapubs.org/toc/ciia/0/0>.

Well, I thought that Summer was the last time I would write this update—my term as editor was supposed to expire on June 30, but it was extended to 11/1/2013. So, this really will be the last time. As I said before, I have loved editing the journal and I've learned a great deal about the editorial process and about auditing. I thank everyone who has submitted articles and performed reviews, as well as the staff at AAA, who are great. I have loved working with my co-editors, as well as all of the authors and reviewers. It's been a pleasure to get to know a lot of new people. Finally, I wish Greg Jenkins, the incoming editor the best of luck—I have no doubt that he will do a great job. Thank you, Rich Houston.

**Recently published articles, commentaries, and practitioner summaries are in the December 2013 issue, which is in progress, see <http://aaajournals.org/toc/ciia/7/2>.**

**We also have a recently accepted article that is not yet processed on an extremely important and timely audit issue:**

Independent Audits of Conflict Minerals Reports, by David N. Herda and Herbert W. Snyder. Available at: <http://aaajournals.org/doi/pdf/10.2308/ciia-50582>

We have several articles in the review process, and some may be available on the website fairly soon. Submissions have been up thus far this year—please continue to submit your work to CIIA.

### Educational Resources

Finally, we have introduced another section of the journal that will include brief audit cases. Our intention is to consider cases and other materials that are perhaps not as detailed as those published in other journals, and our intention is to process them quickly in order to disseminate them to educators and practitioners on a timely basis. To give you an idea of the intended content of the section (we have not yet accepted

any articles for this section), we provide the following summary:

Instructional Resources will include cases derived from actual or simulated business activity that are in line with the objectives of CIIA and are designed to provide timely instructional resources to auditing instructors. The instructional resources also include specific classroom exercises that are designed to enhance student understanding of current auditing issues. Thus, the resources should address 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). We define "auditing practice" broadly to include practice-related issues in external auditing, internal auditing, government auditing, IT auditing, assurance services, and related fields. Instructional resources, inclusive of implementation guidance, should follow the editorial guidelines of CIIA and should be a maximum of 2,500 words. The resources should be designed for immediate use by accounting faculty and should have two self-contained parts: the resource material itself (denoted "Instructional Resource"), and a separate instructor's implementation guide (denoted "Instructional Resource Implementation Guide"). Each section should be submitted in a separate file and should have its own references and footnotes.

**We have several articles, commentaries, and practitioner summaries that soon will be available. Thanks for you continued support of *Current Issues in Auditing* and, again, we invite you to submit your work.**

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**AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION**

## **Have You Seen?**

**Tamara Lambert, University of Massachusetts Amherst  
Benjamin Luippold, Georgia State University  
James D. Whitworth, University of North Carolina-Wilmington**

**"How do Regulatory Reforms to Enhance Auditor Independence Work in Practice?"**

**by Krista Fiolleau, Kris Hoang, Karim Jamal and Shyam Sunder. Contemporary Accounting Research 2013 30 (3): 864-890.**

This study explores the potential consequences of regulation proposed in the United States and Europe that mandates auditor rotation. Specifically, the authors investigate the "courtship" between auditors and management during the request for proposal (RFP) process that precedes the auditor selection by management. In doing so, they conduct a field study of a large public company during an auditor rotation by examining several confidential documents involved in the RFP process, reading the minutes of the audit committee meetings on the auditor selection, and conducting interviews with the CFO, audit committee chair, and the audit partners who submitted bids on the audit. They find that the RFT process is mainly controlled by management and repeatedly sees auditors catering to management in attempt to win the audit. As a result, the study suggests that mandatory auditor rotation will generate more opportunities for courtship and potentially weaken auditor independence.

**"Internal Auditing and Corruption within Government:Â The Case of the Canadian Sponsorship Program"**

**by Dean Neu, Jeff Everett., and Abu Shiraz Rahaman.Â Contemporary Accounting Research 2013 30 (3) 1223-1250.**

The Canadian federal government's sponsorship program (an advertising campaign against separatism in Quebec) was wrought with corruption despite the internal government auditing practices providing assurance against such practices existing. In the wake of this scandal, this study has two motivations: The first is to gain an understanding of auditing in government situations and settings that are subject to political influence. The second is to investigate how politics influence internal government auditors. The study employs a qualitative methodology, examining documents coming out of the government inquiry into the scandal. In addition, the authors also conducted a lengthy interview with the governmental employee who first reported the problems associated with the sponsorship program. The authors contend that political influence infects audit judgments related to such programs, allowing for audits and other anti-corruption activities to co-exist with the selling of influence (i.e., corruption). That is, auditors serve at the discretion of politicians and bureaucrats, who do not want the auditors to have "carte blanche" inspection powers, and can petition to have audit findings adjusted. The authors conclude that this structure of government allows for corruption to exist despite the audits put in place to curb such activity.

**"The Effects of Communication Media and Client Familiarity on Auditors'**

**Confidence in Deception Detection"**

by Meghann Cefaratti and Reza Barkhi. *Journal of Forensic & Investigative Accounting* 5 (2): 1-26.

This study investigates how auditors' confidence in detecting deception is affected by the communication media used for their discussions with management and their familiarity with the client. To examine this, the authors conducted an experiment on 90 undergraduate auditing students. The study employed a 2x2x2 repeated measures design, manipulating the communication media as either face-to-face or email, whether or not the client was a new one, and whether or not deception cues were present. The authors created eight short cases involving short meetings between participants, creating a full-factorial repeated measures design. The study finds that auditors are more confident in their ability to detect deception when the meeting occurs face-to-face as compared to via email and when the client is a repeat client compared to a new one.

**"Qualitative audit materiality and earnings management"**

by Joseph Legoria, Kevin Melendrez, and J. Kenneth Reynolds. *Review of Accounting Studies* 2013 18 (2): 414-442.

Qualitative audit materiality is considered in this study, as auditors are expected to consider qualitative as well as quantitative thresholds in their materiality determinations. For some companies, a quantitatively immaterial decision may push a company above key qualitative thresholds. This study considers change in tax expense as a proxy for earnings management, where an immaterial change in tax expense could result in meeting analyst forecasts. They find that quantitatively immaterial changes in tax expense are associated with a greater likelihood of meeting or beating consensus earnings forecasts, consistent with the notion that auditors emphasize (and deter earnings management related to) quantitative materiality over qualitative materiality. Further, the authors find that this association became weaker after SAB-99 and the Sarbanes-Oxley Act of 2002.

**"Does Auditor Industry Specialization Improve Audit Quality?"**

by Miguel Minutti-Meza. *Journal of Accounting Research* 2013 51 (4): 779-817.

This study considers whether current proxies for auditor industry specialization used in archival research are reliable. Using an array of approaches including a matched sample, auditor change sample, and client-fixed effects, the study finds no consistent association between current year market share-based dummies for auditor industry expertise and audit fees, going concern reports, and discretionary accruals. The authors conclude that methodology used in extant archival studies to examine industry knowledge does not fully parse out the effects of auditor industry specialization from client characteristics.

**"Auditor Fees and Auditor Independence: Evidence from Going Concern Reporting Decisions"**

By Allen D. Blay and Marshall A. Geiger. *Contemporary Accounting Research* 2013 30 (2): 579-606.

Using a sample of financially distressed firms in a post-SOX setting, this study examines the threat to independence that current non-audit fees as well as *future total* fees pose to the auditor. This study documents a negative association between future total fees received by the auditor and the likelihood of receiving a going concern report in the current period. In contrast to prior research on non-audit services, they also document a negative association between current period non-audit fees and the likelihood of receiving a going concern report using their sample of financially distressed firms. The authors consider their evidence to be consistent with the argument that auditors may appease clients in the current period in order to maintain future revenue streams from their incumbent clients.





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## Twentieth Annual Midyear Auditing Section Conference

Dear Members,

Please make plans to attend the **Twentieth** Annual Auditing Section Midyear Conference to be held in San Antonio, Texas on January 16-18, 2014. The Conference will be held at the San Antonio Marriott Rivercenter. A limited number of rooms has been reserved at the special conference rate of \$179 per night inclusive of internet access, single or double. **Please make your [Hotel Reservations](#) before December 16, 2013 to take advantage of this special room rate.**

You can [Register Online](#) for the Early Registration fee of \$295 until December 16, after which the Registration fee increases to \$325. You will need your AAA Login ID and password to log in; if you have forgotten your Login ID and/or password, use the [Password Request Form](#) (Note that the email address you enter must be the same email address contained in your AAA member record.) If you do not receive an email message containing your login information, please contact the American Accounting Association at [info@aaahq.org](mailto:info@aaahq.org).

Similar to previous years, the meeting will include two keynote plenary speakers and concurrent sessions including panel sessions dealing with a wide variety of contemporary topics related to audit and assurance research, practice, and education. The Friday morning plenary session will feature an open discussion by Joe Ucuzoglu, Regulatory Practice Leader at Deloitte. Joe will address numerous policy and regulatory issues facing the profession. Joe's biography is posted [HERE](#). The Saturday morning plenary session will feature NY Times bestselling author Daniel Simons. Daniel studies the limits of human perception and judgment and why we are typically unaware of those limits—he will address issues of importance related to his research vis-à-vis auditors' judgments and decision. Daniel's biography is posted [HERE](#).

This year's program will again include a pre-conference [Excellence in Auditing Education Workshop](#) sponsored by the Section's Education Committee. The workshop will begin Thursday afternoon at 1:00 PM. The purpose of this Workshop is to explore the opportunities, challenges and successful methods of integrating the Audit Judgment Framework into the classroom. Instructors include former Auditing Section Presidents Scott Showalter, Steve Glover and others. The separate registration fee for the workshop is \$50 and pre-registration is required. Seating is limited, so register early. Contact Tom Kozloski (e-mail: [thomas.kozloski@smu.ca](mailto:thomas.kozloski@smu.ca)) if you have questions about the workshop.

### Events Commemorating the Auditing Section's 20th Annual Meeting.Â

In commemoration of the Auditing Section's Twentieth Annual Midyear Meeting, two special activities are planned. First, an exciting and fun commemorative event will be held during the Friday evening reception immediately following the Section's Business meeting. The event will include a video retrospective with numerous members of the Auditing Section, along with a competitive trivia game and prizes, music, beverages and hors d'oeuvres.

Second, Section members may choose to participate in an optional service project, coordinated by former Auditing Section President Audrey Gramling. Please consider joining members in providing school supplies for at-risk children in San Antonio.

***These children are under the care of. Peter-St. Joseph Children's Home, which cares for abused, neglected, abandoned, and homeless children.*** You can support one child for \$20 or consider supporting more than one child! Donation information is included on the meeting registration form. All monies donated will be used to purchase school supplies. (The American Accounting Association is a U.S. Internal Revenue Service qualified charitable organization. A receipt for your donation will be e-mailed to you.) If you wish to participate, but are unable to process a donation via the registration system, AAA will be accepting donations at the meeting.

### **Doctoral Student Registration Information**

The [15th Annual Auditing Section Doctoral Consortium](#) will be held on January 16, preceding the Midyear meeting. The chair of this year's Consortium is Jeff Cohen. The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students, established auditing researchers, and journal editors. The Consortium is open to all Ph.D. students who have an interest in auditing research. Students may be at any stage in their program. There is no cost to apply or, if selected, to attend the Auditing Section Doctoral Consortium. Any student wishing to attend **must complete the application process**. The deadline for consortium applications is October 7; the organizers will issue invitations to attend by October 21. Alternates will also be notified in case any invited students decide not to attend. To apply for an invitation to the Consortium, complete the [PDF application form](#) and email it to [cohen@bc.edu](mailto:cohen@bc.edu).

**Please note that the application for the Consortium is separate from registration for the Auditing Section Midyear Conference (January 16-18)** which follows the Consortium. Students wishing to register for the Midyear Conference can do so by [registering online](#) by December 16. The Midyear Conference student registration fee is \$150.

***We would like to thank the KPMG Foundation for its continued and generous support in sponsoring the 2014 Auditing Section Midyear Meeting Conference and 15th Annual Auditing Section Doctoral Consortium.***

***We also thank EY for sponsoring the Saturday morning speaker***

Make plans now to join us in San Antonio in January!

Rick Hatfield and Susan Scholz

2014 Auditing Section Midyear Conference Co-Chairs

Jeff Cohen

2014 Auditing Section Doctoral Consortium Chair

Mark Taylor

Auditing Section President

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## PCAOB Academic Fellowship Program

The Public Company Accounting Oversight Board (the Board) has established an Academic Fellowship Program to bring outstanding researchers and academics to the Board's Washington DC headquarters for a term of up to twelve months. The Academic Fellow for the 2014-2015 academic year will serve in the Office of Research and Analysis (ORA).

### Office of Research and Analysis

ORA supports the activities of the Board and Divisions through a variety of programs. For example, ORA assists the Division of Registrations and Inspections in identifying higher-risk audits and audit areas and provides data and analysis for the inspection-planning process using proprietary databases and models.

### Academic Fellowship Description

The Board is seeking qualified individuals with an active interest in auditing and oversight matters. The Academic Fellow will undertake projects in support of the Board's strategic plan and ORA's work plan. He or she will provide analytical support and advice and develop innovative ideas for ORA's work. Projects may include research on accounting and auditing matters, auditing firms, and risk assessment. ORA supervisors and the Academic Fellow will jointly decide on research projects, depending on the Board's needs and the interests and qualifications of the Academic Fellow. The Academic Fellow will have access to ORA's resources, subject to confidentiality and ethics requirements.

### Compensation, Benefits, and Timing

Compensation for the Academic Fellow will typically be 12/9s of a professor's academic year salary (for a 12-month appointment) or a full-time salary for a non-academic, plus related benefits. The Board will reimburse reasonable relocation expenses to and from Washington, DC.

The Academic Fellow position will begin between June – August, 2014, and is for a period of up to 12 months.

### Eligibility

Applicants must have a PhD and at least 5 years of post-doctoral experience conducting academic research and publishing in peer-reviewed publications.

The fellowship provides an excellent opportunity for insight into the Board's work and experiences valuable for teaching and research. Please contact Greg Jonas, Director of the Office of Research and Analysis, at [JonasG@pcaobus.org](mailto:JonasG@pcaobus.org) for more information.