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Report of the President

By Rick Hatfield



I hope everyone is enjoying a great fall semester. The change in weather has been nice, and I certainly enjoy football. Good luck to you all as your teams compete fiercely for second place.

It is an honor for me to serve as your president. The Auditing Section has been so very good to me over the years. This section is singular in its caring attitude and consistent helpfulness to one another as we strive to improve the practice of auditing through education, service and research. I want to thank the executive committee, which is hard at work on a variety of fronts including some upcoming meetings. Also, I want to thank all of those who volunteer and serve on a assortment of committees that keep the section running so smoothly. I will briefly discuss some of the work that is going on as well as providing a brief recap of the Annual Meeting and a preview of the upcoming Midyear Meeting.

The Auditing Standards Committee (ASC) is again hard at work bringing our voice, including insight from our research, to the standard-setting process. This committee has been very active over the last few years and we felt it was important to recognize the work they are doing to bring our voice and insights from our research to the standard-setting process. The ASC, led by Marshal Geiger as Chair and Pamela Roush as Past Chair, organizes project teams to respond to proposed standards or other calls for responses by summarizing and highlighting the insights from our collective research. I encourage you to read about their activities in the newsletter and thank the members who have contributed to each of those project teams.

The Research Committee, chaired by Ling Lisic, and Communications Committee, chaired by Noel Harding, continue to bring us tweets of research summaries from our continually-updated database. We appreciate their efforts to summarize and highlight our research as well. Check out the research summaries database at www.AuditingResearchSummaries.org and follow on Twitter at [@AuditResearch](https://twitter.com/AuditResearch).

Annual Meeting 2017

I hope you enjoyed your trip to San Diego. It is such a great time to catch up with colleagues you do not see as often as well as enjoy some interesting panels and research sessions (and the weather wasn't bad either). I want to thank the Co-Directors Brian Bratten, David Wood and Nate Stephens for their work managing the review process, putting together concurrent sessions and panel sessions, assigning moderators and discussants, and assisting the AAA staff in ensuring a valuable experience for all of our members. They were assisted by Vice Directors Monika Causholli, Adi Masli, Sarah Rice and Chad Stefaniak. They all did a fantastic job so thank them again the next time you see them. They handled a total of 213 submissions, no small task, so please remember to register each year to serve as a reviewer, discussant or moderator when you see the call go out.

The Center for Audit Quality (CAQ) hosted their Annual Symposium which brings together senior practice leaders and academics for a dialogue on issues that are of importance to the profession. This year's sessions focused on challenges and opportunities connected to how auditing firms approach risk assessment, as well as innovative approaches to learning and development. You can view those panel discussions on the CAQ website at <http://www.thecaq.org/resources/video-library/caq-symposium>.

At the lunch meeting, we welcomed the new Executive Committee members: Kathryn Kadous as Vice President – Academic and Chad Stefaniak as Treasurer. The remaining committee members include Karla Johnstone who now assumes the role of Past President after an awesome year as President, Susan Scholz who continues as Secretary, Dan Sunderland who continues as Vice President – Practice, Mark Taylor who continues as Historian and Urton Anderson who continues as our Council Representative. We also thanked Keith Jones for his service as Treasurer. Please feel free to contact any of the Executive Committee members if you have any questions about the Section.

2018 Midyear Meeting in Portland, Oregon

I hope you enjoy new ideas and new places, because our upcoming Midyear Meeting will provide both. Leading this year's meeting are Co-Directors Tina Carpenter, Margaret Christ and Jaime Schmidt. They have faced numerous challenges and put together an awesome program, I cannot say enough about their creativity and effort. They are assisted by Vice-Chairs Kenneth Bills, Chan Li and Drew Reffett. I would like to thank KPMG for their continued support of the Midyear Meeting, their support greatly enhances the value of this event. The 2018 meeting will be held at the Hilton Portland in Portland, Oregon.

Our theme is "Think Smarter-Think Differently." Along these lines, we have some great speakers for plenary sessions and lunch. EY is sponsoring a great speaker, Eugene Soltes from Harvard University, the author of "Why They Do It: Inside The Mind of the White-Collar Criminal." Thanks to EY for sponsoring this great session! We also have Raj Rangunathan discussing aspects of his book "If You're So Smart Then Why Aren't You Happy?" a topic that should certainly be helpful to us, and we have at least one more unique speaker in the works. I can't wait to hear these presentations.

We will once again have two events on the Thursday preceding the Midyear Meeting: the Doctoral Consortium and the Audit Education Workshop. The Chair of this year's Doctoral Consortium, Jackie Hammersley, is working on the program with the assistance of Vice Chair Susan Scholz. I am quite confident they will put together an excellent program. There are still several spots for this consortium, which is an incredible experience doctoral students should not miss. Again, join me in thanking KPMG

for sponsoring this event, which is such a great opportunity for our doctoral students. Secondly, we have a Committee dedicated to putting together an exciting Excellence in Audit Education Workshop, led by Sandra Shelton with the help of her vice-chair Helen Brown-Liburd as well as VP academic, Dan Sunderland. The theme of the workshop is “How to Teach Risk Assessment and the Appropriate Audit Response.” We are working with several audit firm professionals and academics to ensure we understand the challenges of audit risk assessment as well as considering materials to improve our teaching on this topic.

CAQ Research Advisory Board Grant RFP

The CAQ released the Request for Proposals (RFP) for their annual Research Advisory Board (RAB) grants for independent academic research. One of the benefits of a CAQ research grant is the opportunity to have a senior practice leader serve as an advisor in the refinement of your project design, an invaluable interaction. The RAB funds project using several different methodologies: archival research, literature reviews and syntheses, descriptive analyses, meta-analyses, and behavioral/ experimental studies. A full list of Topic Areas of Interest can be found on the CAQ website. Interested researchers must submit their proposal using the online submission process no later than Midnight PST, Thursday, March 15, 2018. There is no fee for proposal submissions, and awards will be announced by the end of June 2018.

Access to Audit Personnel: As a reminder, the Access to Audit Personnel Program (AAP) RFP was released in August 2017. Those who are awarded AAP grants can expect to collect data from auditors for their experimental projects during the summer of 2018. To be considered, proposals must have a fully formed data collection instrument. AAP proposals are due by Midnight PST, Thursday, February 1, 2018. Academics must complete an online application form and attach the proposal, data collection instrument, and other supporting materials as a single PDF or Word document. If you were not able to attend the special session that was held at the AAA Annual Meeting on the AAP program, a video of the session, Insights into Developing a Successful Proposal for the Access to Audit Personnel Program, is available on the CAQ website. This video offers the perspectives of two members of the AAP Review Committee and the data collection experience of an AAP grant awardee. This information can serve as a helpful tool as you put together your proposal.

In closing, let me once again thank all of the members who volunteer their time and effort to contribute to the success of the Auditing Section. I encourage you all to consider volunteering in the future, and to consider serving on the Executive Committee so that you can experience firsthand what it’s like to work with such dedicated and hard-working individuals.

I look forward to seeing you in Portland in January!

Rick Hatfield

President

PCAOB Update

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

Introduction

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

- Staff Inspection Brief Previewing the Results of 2016 Inspections of Auditors of Broker-Dealers
- Staff Inspection Brief on 2017 Inspections of Auditors of Broker-Dealers
- Sanctions against a Hong Kong Audit Firm for Refusing to Cooperate with Board Investigation
- Scholarships for 2017-2018 Academic Year
- \$1 Million Settlement with PricewaterhouseCoopers for Violations in its Examination and Audit of Merrill Lynch's Compliance with the SEC Customer Protection Rule
- Annual Report on 2016 Inspections of Broker-Dealer Auditors
- Staff Inspection Brief on 2017 Inspections of Auditors of Public Companies
- Supplemental Request for Comment on Proposed New Requirements for Lead Auditor's Use of Other Auditors
- Staff Audit Practice Alert on Auditing the New Accounting Standard for Revenue.

Staff Inspection Brief Previewing the Results of 2016 Inspections of Auditors of Broker-Dealers

On June 28, 2017, the PCAOB published a staff inspection brief that previews results of the 2016 inspections of auditors of brokers and dealers.

PCAOB inspectors continued to observe impaired auditor independence as auditors were involved in the preparation of the financial statements or accounting records of their audit clients. Inspections staff also continued to observe deficiencies in financial statement audit areas similar to previous inspection cycles, including revenue recognition, financial statement presentation and disclosures, and the assessment of risks of material misstatement due to fraud. In addition, PCAOB inspectors observed that auditors did not sufficiently assess relationships and transactions with related parties.

In 2016, PCAOB inspectors also observed deficiencies in areas including audit procedures on the supporting schedules that accompanied the financial statements; procedures for the attestation engagements: the examinations of compliance reports and the reviews of exemption reports; and engagement quality reviews.

The inspection brief is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/inspection-brief-2017-1-broker-dealer-results.pdf>.

Staff Inspection Brief on 2017 Inspections of Auditors of Broker-Dealers

On June 29, 2017, the PCAOB issued a staff inspection brief detailing the scope, focus, and objectives of its ongoing 2017 inspections of auditors of brokers and dealers. In 2017, PCAOB inspectors are focusing on audit areas and attestation procedures where inspectors previously found deficiencies, including auditor independence, engagement quality reviews, and certain areas of the financial statement audit. Inspections staff is focusing on the following broker-dealer audit areas and attestation procedures in 2017:

- Auditor independence
- Financial statement audit areas where deficiencies were identified in past inspections, including revenue, the assessment and response to risks of material misstatement due to fraud, financial statement presentation and disclosure, fair value measurements, and related party transactions
- Audit procedures on the supporting schedules to the financial statements
- Procedures for the attestation engagements: the examination of compliance reports and the review of exemption reports and
- Engagement quality reviews.

The inspection brief is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/inspection-brief-2017-2-broker-dealer-scope.pdf>.

Sanctions against a Hong Kong Audit Firm for Refusing to Cooperate with Board Investigation

On July 25, 2017, the PCAOB announced a settled disciplinary order against Hong Kong-based audit firm Crowe Horwath (HK) CPA Limited for refusing to cooperate with a Board investigation of the firm's audits of a China-based issuer.

The firm consented to the sanctions and admitted to the facts, findings, and violations in the order. Crowe Horwath HK's registration was revoked with a right to reapply after three years. The firm also was censured.

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

<https://pcaobus.org/Enforcement/Decisions/Documents/105-2017-031-CroweHK.pdf>.

Scholarships for 2017-2018 Academic Year:

On August 2, 2017, the PCAOB announced the recipients of \$10,000 merit-based scholarships that are intended to encourage accounting students to pursue careers in audit. The PCAOB will provide an award to one student at each of the 167 colleges and universities listed in the PCAOB's press release. This is the seventh year the PCAOB has funded the scholarships.

The Sarbanes-Oxley Act of 2002 requires that monetary penalties imposed by the PCAOB in its disciplinary proceedings be used to fund a merit scholarship program for students in accredited accounting degree programs. The PCAOB scholarship program was created to identify students eligible for the scholarships and award the funds through the students' educational institutions.

Each participating educational institution nominates a scholarship recipient from students enrolled in its accounting degree programs. To qualify, students must:

- Be enrolled in a bachelor's or master's degree program in accounting at a regionally accredited U.S. college or university
- Demonstrate interest and aptitude in accounting and auditing
- Demonstrate high ethical standards

A description of the program, along with information on the nomination process, the selection of nominating institutions, and other details can be found on the PCAOB website at:

http://pcaobus.org/About/Pages/Academic_Scholarship.aspx.

\$1 Million Settlement with PricewaterhouseCoopers for Violations in Examination and Audit of Merrill Lynch's Compliance with the SEC Customer Protection Rule

On August 2, 2017, the PCAOB announced that it censured and imposed a \$1 million civil penalty against PricewaterhouseCoopers LLP for violations in its examination and audit of Merrill Lynch, Pierce, Fenner & Smith, Incorporated's compliance with the Securities and Exchange Commission's Customer Protection Rule in fiscal year 2014.

The SEC's Customer Protection Rule requires a broker-dealer to hold certain customer securities in lien-free segregated accounts to protect them from creditor claims should the broker's business fail. Merrill Lynch reported that it had complied with the rule in fiscal year 2014 and that its internal control over compliance with the rule was effective.

The Board found that, in February 2015, PwC issued audit and examination reports without obtaining sufficient evidence about Merrill's compliance assertions, as required by PCAOB auditing and attestation standards.

In June 2016, the SEC found that for several years, including fiscal year 2014, Merrill Lynch held tens of billions of dollars of its customers' fully paid and excess margin securities in accounts that were subject to liens by third parties, in violation of the Customer Protection Rule.

PwC consented to the Board's order without admitting or denying the findings in the order. The settled order is available on the PCAOB website at:

<https://pcaobus.org/Enforcement/Decisions/Documents/105-2017-032-PwC-Merrill.pdf>.

Annual Report on 2016 Inspections of Broker-Dealer Auditors

On August 18, 2017, the PCAOB issued a report on its inspections in 2016 of auditors of brokers and dealers that shows a continued high level of audit deficiencies.

PCAOB inspectors observed deficiencies at 97 percent of the firms inspected in 2016, compared to 96 percent in 2015. Deficiencies were observed in 83 percent of the audits inspected at those firms in 2016, up from 77 percent in 2015. PCAOB inspectors also observed deficiencies in 48 percent of the attestation engagements, compared to 55 percent for 2015.

The annual report, the sixth issued by the PCAOB for its interim inspection program for auditors of broker-dealers, covers the 2016 inspections of 75 firms and portions of 115 audits and related attestation engagements.

The report is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/BDA-Interim-Inspection-Program-2017.pdf>

and a fact sheet is available at:

<http://pcaobus.org/News/Releases/Pages/fact-sheet-broker-dealer-annual-report-081817.aspx>.

Staff Inspection Brief on 2017 Inspections of Auditors of Public Companies

On August 30, 2017, the PCAOB published a staff inspection brief providing information about its ongoing 2017 inspections of auditors of public companies and other issuers. The brief is intended to help investors, auditors, and others understand the areas of significant audit risks targeted by PCAOB inspectors, and encourage auditors to work to improve audit quality.

Key areas of focus for PCAOB inspectors in 2017 include:

- Audit areas where inspectors have identified deficiencies in the past, such as assessing and responding to risks of material misstatement

- Audit areas affected by recent economic developments, including the high rate of merger and acquisition activity and fluctuations in oil and natural gas prices
- Financial reporting areas that require significant judgment, including going concern considerations and income tax disclosures
- An audit firm's compliance with new transparency rules (Form AP)
- Preparation for new accounting standards for revenue recognition and lease accounting
- Work by other auditors on multinational audits
- The auditor's use of information technology, particularly software audit tools
- The audit firm's system of quality control

The inspection brief is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/inspection-brief-2017-3-issuer-scope.pdf>.

Supplemental Request for Comment on Proposed New Requirements for Lead Auditor's Use of Other Auditors

On September 26, 2017, the PCAOB issued a supplemental request for comment on a proposal that would strengthen existing requirements and impose a more uniform approach to a lead auditor's use of other auditors. The proposal spells out a lead auditor's responsibilities for planning, supervising, and evaluating the work of other auditors.

In many audits, important audit work is performed by firms or individual auditors outside the firm issuing the audit report. The supplemental request for comment seeks additional input on revisions to the initial proposal on the use of other auditors.

The proposal is intended to increase the lead auditor's involvement in, and evaluation of, the work of other auditors and impose a uniform approach to the use of other auditors by:

- 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; and,
- Requiring more explicit procedures to prompt the lead auditor to bolster its involvement in the work of other auditors, including enhanced communication and more robust evaluation of other auditors' qualifications and work.

The PCAOB requests public comment on its supplemental request by November 15, 2017. The supplemental request for comment is available on the PCAOB website at:

<https://pcaobus.org/Rulemaking/Pages/Docket042.aspx>.

Staff Audit Practice Alert on Auditing the New Accounting Standard for Revenue

On October 5, 2017, the PCAOB published a staff audit practice alert to assist auditors in applying PCAOB standards when auditing companies' implementation of the new revenue accounting standard from the Financial Accounting Standards Board.

Staff Audit Practice Alert No. 15: *Matters Related to Auditing Revenue from Contracts with Customers*, highlights PCAOB requirements and other considerations for audits of a company's implementation of the new revenue accounting standard, including:

- Transition disclosures and transition adjustments
- Internal control over financial reporting
- Fraud risks
- Revenue recognition
- Disclosures

The staff audit practice alert is available on the PCAOB website at:

<https://pcaobus.org/Standards/QandA/SAPA-15-revenue-accounting-standard.pdf>.

Current Issues in Auditing

By Lisa Milici Gaynor

University of South Florida

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.

As the new editor, I encourage submissions by regulators and/or practitioners on discussion pieces of emerging issues. Further, I encourage academicians of articles currently accepted at other journals be consider submitting previously published work modified for a broader, CIIA audience. Finally, I encourage submissions by academicians who have strong ties to practice that can assist in bridging the gap between the needs of the profession and universities. Research is beneficial when it is read by wider audiences, especially those in practice, as one of the major purposes of research is to solve problems that occur in practice. To do so, academicians need to be properly informed. Accreditation bodies and some universities realize the importance of bridging the work of academics and practitioners such that partnerships are created whereby each informs the other. CIIA is a great tool to create and foster these partnerships.

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 not yet online in the journal at:

<http://aaapubs.org/toc/ciia/0/0>.

Recently accepted and published articles include comments by the Auditing Standards Committee of the Auditing Section on the IAASB's invitation to common on audit quality and the PCAOB's proposed standard on the auditor's report.

Point/Counterpoint Series

We have introduced a new section of the journal – the Point/Counterpoint series – to encourage articles that consider contemporary issues about which little has been written in the academic literature. We encourage submissions that present multiple perspectives on contemporary topics. Submissions should

clearly explain the issue being explored and include separate “Point” and “Counterpoint” sections. We look forward to receiving submissions in this category.

Educational Resources

Finally, we have a section of the journal that includes brief teaching cases appropriate for use in the audit classroom. The following provides some background for this section of the journal:

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.

Thanks for your continued support of *Current Issues in Auditing* and, again, we invite you to submit your work.

AICPA Auditing Standards Board Update

By Steven Glover

Brigham Young University and Auditing Standards Board Member

New Exposure Drafts

At the drafting of this update, the following standards were out for exposure:

- Proposed Statement on Standards for Attestation Engagements, *Selected Procedures*.
- Proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

In the July 2017 meeting, the ASB voted unanimously to ballot for issuance as exposure drafts the following proposed standards:

Other information

- Proposed SAS *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, to supersede AU-C section 720, *Other Information Included in Documents Containing Audited Financial Statements*.

Auditor Reporting

- Proposed SAS *Forming an Opinion and Reporting on Financial Statements*, to supersede AU-C section 700 of the same title
- Proposed SAS *Modifications to the Opinion in the Independent Auditor's Report*, to supersede AU-C section 705 of the same title
- Proposed SAS *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, to supersede AU-C section 706 of the same title
- Proposed SAS *Communicating Key Audit Matters in the Independent Auditor's Report*, which will create new AU-C section 701 of the same title
- Proposed amendments to various AU-C sections, including AU-C section 260, *The Auditor's Communication With Those Charged With Governance* and SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

The auditor reporting exposure draft also has updates for a *disclosures project*, which will amend several standards. One area to be aware of is that the project will change way the way disclosures are worked into the basic audit assertions. The ASB's disclosure project is largely consistent with the IAASB's disclosure ISA, *ISA Addressing Disclosures in the Audit of Financial Statements—Revised ISAs and Related Conforming Amendments*, which was issued in July 2015.

Other updates from the July 2017 ASB Meeting

Estimates

The ASB discussed the AICPA's comment letter in response to the IAASB's Exposure Draft: *Proposed International Standard on Auditing (ISA) 540 (Revised), Auditing Accounting Estimates and Related Disclosures (ED 540)*. The ASB is supportive of the IAASB amending ISA 540 to address existing practice issues. However, concerns were expressed in the significant changes to ISA 540 and the ASB's letter urges the IAASB to work with the PCAOB in order to achieve closer convergence with its respective proposed standards on auditing estimates.

AAA Council Update

By Urton Anderson

University of Kentucky

The AAA Council met on Sunday, August 6th at the Annual Meeting in San Diego. Highlights of the meeting are summarized below.

2016-2017 Council Chair Mark Dawkins welcomed everyone to the August 2017 Council Meeting. Outgoing Council members were recognized for their service, and incoming Council members and Segment Leadership were welcomed.

Executive Director Tracey Sutherland reflected on the past 10 years of the Association in terms of core activities: Membership, Publications, Meetings and headquarters. Membership has been on an upward tick and we are at our third highest year in the past 10 years. Tracey also announced several changes:

- The Hasselback Directory will now be published by the AAA as an online directory to be called the "Accounting Faculty Directory."
- The Accounting Hall of Fame, which has been hosted by The Ohio State University for since its inception, will be joining the AAA in their headquarters. A Transition Team has been put in place to ensure a smooth transition.
- The lease space at our headquarters building is in the process of being shown by our realtor to a potential tenant.
- The AAA is investigating meeting submission systems in addition to the current All Academic platform.

Chief Innovation Officer Julie Smith David spoke about trends in journal downloads and the fact that the AAA has had over 2 million downloads for the first time. *The Accounting Review (TAR)* has the largest number of journal downloads, and the *Journal of Management Accounting Research (JMAR)* has had a large upswing in the number of downloads. The question of whether to make the Section journals available to all AAA members remains, as the majority are currently only available to members of the Section.

Julie Smith David gave an overview and update on AAA Finances related to the reporting problem with batch reporting in January. Consultants assisted with solutions and the Auditors found no problems. On July 17, financial reports were sent to Sections. A Task Force, led by Anne Farrell, was developed to talk about what future financial reports should look like.

Mark Dawkins gave a review of the tasks that Council accomplished in 2016-2017, including developing a Council Guest Policy, At-Large Panel sessions for the Annual Meeting, and the population of the slate for the BOD position of Director-Focusing on Membership.

2017-2018 Council Chair Markus Ahrens gave an overview of the activities to come in 2017-2018 by month, including the dates for the Fall and Spring Council Meetings and the May Council Webinar. Markus also thanked outgoing Council Chair Mark Dawkins for his service on Council.

The Call for Nominations for the Board of Directors positions opened on August 28th. The Council will select the candidates for the Director - Focusing on Segments position at the November Council Meeting.

Finally, the November Council meeting will be in National Harbor, MD on Saturday, November 11th.

Have you Seen...?

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

“The Effects of Out-of-Regime Guidance on Auditor Judgments about Appropriate Application of Accounting Standards.” By H. Scott Asay, Tim Brown, Mark Nelson and T.Jeffrey Wilks. *Contemporary Accounting Research* 34(2): 1026-1047.

This study investigates whether consultation of accounting standards from a different regime affects auditors' assessments of a client's accounting treatment under its own regime's standards when the two regimes conflict. The authors theorize that such a consultation will induce a contrast effect wherein auditors will consider the home regime treatment more reasonable when they have consulted the out-of-regime guidance than when they have not. The authors further predict that this contrast effect will weaken when the home regime accounting standards lack guidance on the accounting issue compared to when they include explicit guidance that conflicts with the out-of-regime standards. The authors conducted two experiments with a total of 110 auditors ranging from senior to partner level. Participants reviewed a case involving an accounting issue for which home regime (IFRS) guidance differed from out-of-regime (U.S. GAAP) guidance. Before reviewing the case, participants either reviewed home regime guidance only, or they reviewed out-of-regime guidance first and then reviewed home regime guidance. The second experiment additionally varied whether or not the home regime standards contained explicit guidance on the accounting issue. As predicted, the authors found consultation of out-of-regime standards first led to a contrast effect wherein auditors rated accounting treatment that is compliant with home regime standards to be more reasonable than when out-of-regime standards were not consulted. Additionally, they found that the contrast effect was weaker when the home regime standards lacked explicit guidance on the accounting issue. The authors discuss implications for IAS No. 8, which allows firms to rely on out-of-regime guidance to develop accounting policies when IFRS lacks guidance on the issue.

“Prompting the Benefit of the Doubt: The Joint Effect of Auditor-Client Social Bonds and Measurement Uncertainty on Audit Adjustments.” By Steven Kachelmeier and Ben Landuyt. *Journal of Accounting Research* 55(4): 963-994.

This study addresses whether social bonds between client and auditor and the level of accounting measurement uncertainty interact to affect the auditor's proposal of audit adjustments to curb aggressive reporting. Prior research has found that social bonds and measurement uncertainty each reduce the auditor's proposed adjustment of misreporting. The authors seek to extend the literature by theorizing that the two factors will have an interactive effect due to the ambiguity introduced by measurement uncertainty. Thus, they predict that social bonds will reduce the auditor's proposed audit adjustment more when there is greater uncertainty in the accounting measurement. The authors employ an experimental economics game with 140 undergraduate student serving as proxies for either auditors or clients. Social bonds and measurement uncertainty were each varied as either present or absent across treatment conditions. As expected, the authors found a joint effect of social bonds and measurement uncertainty on auditor's adjustment decisions. Social bonds between the auditor and

client reduced auditors' proposed adjustments only when there was measurement uncertainty. Interestingly, while not the focus of the study, the authors also found that social bonds reduced misreporting by the clients regardless of the level of measurement uncertainty.

“Performance Evaluations in Audit Firms: Evaluation Foci and Dysfunctional Behaviour.” By Thomas Johansen and Jeppe Christofferson. *International Journal of Auditing* 21(1): 24-37.

This study explores the performance evaluation criteria used by audit firms to formally and informally evaluate auditors and the degree to which auditors engage in dysfunctional behaviors in response to those criteria. Specifically, the authors address three different foci on which evaluations might be based – efficiency focus, client focus and audit quality focus. The authors provide theory and predict that evaluations focused on efficiency or client concerns will be positively associated with dysfunctional behaviors by the evaluated auditors while evaluations focused on audit quality will be negatively associated with dysfunctional behavior. A total of 196 audit staff and managers in Denmark completed surveys in which they rated the importance of a list of performance criteria to the evaluations they had experienced in their careers. Each of the three evaluation foci were addressed by several criteria in the list. The respondents then rated the extent to which they had experienced pressure to engage in several dysfunctional behaviors such as omitting a required audit procedure. As expected, the authors found that client-focused evaluations were positively associated with dysfunctional behaviors while quality-focused evaluations tended to limit such behaviors. Somewhat unexpectedly, no relationship between efficiency-focused evaluations and dysfunctional behaviors was found. Analysis of staff and manager subsamples revealed that the authors' findings were driven primarily by less experienced auditors.

“Crash Risk and the Auditor-Client Relationship.” By Jeffery Callen and Xiahua Fang. *Contemporary Accounting Research* 34(3): 1715-1750.

This study examines whether auditor tenure has a significant association with imminent (one-year ahead) stock price crash and finds a negative association between auditor tenure and crash risk. The authors argue that the mechanism behind their finding is that a tenured auditor has the knowledge, experience, and relationship with the client company to curtail bad news hoarding by management that, when released, triggers a stock price crash. Robustness checks show that this finding is not driven by auditor change or short auditor tenure company-years, as the exclusion of those company-years actually strengthens the primary result. Further, their main finding does not hold for industry specialist auditors, suggesting that the effect of auditor tenure on crash risk only applies to non-specialist auditors. Two other robustness checks also conclude that the benefit of increased tenure in reducing stock price crash risk is driven by higher agency conflict settings.

“Audit time pressure and earnings quality: An examination of accelerated filings.” By Tamara Lambert, Keith Jones, Joseph Brazel and D. Scott Showalter. *Accounting, Organizations and Society* 58: 50-66.

The authors consider whether recent filing deadline changes (particularly for large accelerated filers and accelerated filers) had a detrimental impact on earnings quality, in effect examining whether increasing timeliness by requiring annual filings sooner after fiscal year-end had a negative consequence on representational faithfulness. Using an intuitive approach to the data, the authors identify subsets of companies whose audits most likely experienced substantial time pressure due to the shortened deadlines. Those companies whose audit in the year preceding the filing deadline change would not have been completed before the incoming deadline experienced both a decrease in earnings quality and a greater likelihood of filing their 10-K late. Additional analyses suggest that companies and auditors

may have better navigated the second filing deadline change, and that the smaller companies (accelerated filers) impacted by the deadline changes had larger declines in earnings quality. The authors then provide survey evidence from audit partners, who generally agree that the shortened filing deadlines may have impacted earnings quality, particularly among audits with more complex valuation issues. Survey responses also provide best practices for combating the potentially negative impact of regulatory-induced time pressure.

“Does High-Quality Auditing Mitigate or Encourage Private Information Collection?” By Yangyang Chen, Shibley Sadique, Bin Srinidhi and Madhu Veeraraghavan. *Contemporary Accounting Research* 34(3): 1622-1648.

This paper considers whether high-quality auditing increases or decreases private information collection. The former could imply that high-quality auditing reduces the cost of acquiring that information, effectively providing the benefit of the private information cheaper; while the latter would imply that high-quality auditing reduces the benefit to private information acquisition to below its cost. Interestingly, the authors find that private information is negatively associated with high-quality auditing on average, and that idiosyncratic return volatility increases for companies with high-quality auditing during the earnings announcement release window. Taken together, these results suggest that less private information is being collected, during the bulk of the year, on companies with high-quality auditing, and that during the earnings announcement window the stock price of companies with high-quality auditing moves more independently of the market.

Have You Seen These Educational Resources?

Marsha Keune, University of Dayton, Chair

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

Instructional Cases for Auditing Courses

“Providing Assurance for Sustainability Reports: An Instructional Case.” By Veena Brown and Mark Kolhbeck. *Issues in Accounting Education* 32 (3): 95-102.

This case provides students the opportunity to develop appropriate procedures for the provision of assurance on a sustainability report.

“Case: 17-9 Contradictory Evidence.” Deloitte. 2017.

This Trueblood case requires students in undergraduate auditing courses to apply professional skepticism in a setting with conflicting audit evidence.

“Case: 17-10 ABC Retailers.” Deloitte. 2017.

This Trueblood case requires students in undergraduate and graduate auditing courses to evaluate internal control deficiencies.

“COSO 2013: Aligning Internal Controls and Principles.” By Denise Dickens and Rebecca Fay. *Issues in Accounting Education* 32 (3): 117-127.

This case includes a reading assignment on the COSO 2013 Framework class and an internal control classification and design evaluation exercise.

“Teaching good Excel design and skills: A three spreadsheet assignment project.” By Cynthia Frownfelter-Lohrke. *Journal of Accounting Education* 39: 68-83.

This project focuses on the development of Excel technical skills and also Excel design skills. While auditing courses are generally not the primary vehicle for the development of Excel skills, Excel is often used in auditing courses, and this project’s emphasis on Excel design skills could be beneficial for informing students of instructor expectations regarding spreadsheet design.

“Pixystems Toy Company, Inc.” PwC. 2017.

In this study, intermediate accounting and auditing students use Excel and Tableau to develop data analysis skills for accounts payable business processes and controls.

“Peach State University Hotel.” EY. 2017.

This case study, part of The Analytics Mindset series, can be utilized in auditing, advanced auditing or data analytics courses. Students assume the role of auditors of Peach State University Hotel, a hotel and conference center located near a college campus in the southeast. EY Helix General Ledger Analyzer, a simplified tool based on elements of EY’s proprietary software designed for the classroom and utilizing Tableau Desktop software, helps students simulate the real world audit experience. The case helps students learn to ask the right questions, obtain adequate evidence and present conclusions to stakeholders as part of the audit process.

Other Educational Auditing Resources

“Are Accountants Made or Born? An Analysis of Self-Selection into the Accounting Major and Performance in Accounting Courses and on the CPA Exam.” By Allen Blay and M.G. Fennema. *Issues in Accounting Education* 32(3): 33-50.

This study considers whether accounting students self-select into their major based on their accounting ability and whether that ability leads to more positive performance in upper-level accounting courses and on the CPA exam.

“Incorporating Whiteboard Voice-Over Video Technology into the Accounting Curriculum.” By Camillo Lento. *Issues in Accounting Education* 32(3): 153-168.

This study exams the effectiveness of whiteboard voice-over video technology (WBVO) using various data points including student grades and student surveys. It finds that WBVO can be an effective educational tool.

“Are You Making Learning Too Easy? Effects of Grouping Accounting Problems on Students’ Learning.” By Fred Phillips. *Issues in Accounting Education* 32(3): 81-93.

This study provides evidence that simplifying the student learning experience by grouping similar accounting practice problems hampers longer-term learning, leads to student over-confidence in their ability to perform similar problems in the future, and reduces their anticipated need to study for upcoming exams. The results suggests that presenting students with a level of difficulty is more effective than simplification.

Twenty-Fourth Annual Midyear Auditing Section Conference



Dear Members,

Please make plans to attend the [Twenty-fourth Annual Auditing Section Midyear Meeting](#) in Portland, Oregon January 11-13, 2018.

[Register Online](#) with your AAA Login ID and password. If you have forgotten your Login ID and/or password, [click here](#). (Note that the email address you enter must match your AAA profile.) If you do not receive an email response, contact info@aaahq.org.

The meeting will be held at the Hilton Portland & Executive Tower in Portland. A limited number of rooms have been reserved at a rate of \$179 per night. **Please make your [Hotel Reservations](#) before December 11, 2017 to take advantage of this special room rate. Register Online for the Early Registration fee of \$295 (\$200 for doctoral students) through December 11 for Auditing Section Members**, after which the Registration fee is \$325 (\$230 for doctoral students).

Similar to previous meetings, 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.

This year's program will again include a pre-meeting [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 Excellence in Auditing Education Workshop is to bring together auditing academics and auditing educators in professional practice to explore best practices relating to developing critical thinking skills in the classroom. Instructors include Sandra Waller Shelton, DePaul University, and others.

Doctoral Student Registration Information

The [19th Annual Auditing Section Doctoral Consortium](#) chaired by Jackie Hammersley will be held on January 11. 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.

Priority will be given to students who did not attend the consortium in past years and if there are more than two applicants from a school, the PhD coordinator will be asked to rank order the candidates. Students who attend the Consortium are eligible to receive up to two years of complimentary membership in the Auditing Section and in the AAA. There is no cost to apply or attend the Auditing Section Doctoral Consortium, if selected. **Any student wishing to attend must complete the application process.** The deadline for consortium applications is October 31; the organizers will issue invitations to attend by November 14. Alternates will also be notified in case any invited students decide not to attend. To apply for an invitation to the Consortium, complete the online application. You can access the application here: https://ugeorgia.qualtrics.com/jfe/form/SV_3vXNhbTezeNbjDv.

Please note that the application for the Consortium is separate from registration for the Auditing Section Midyear Meeting which follows the Consortium. Students wishing to register for the Midyear Meeting can do so by registering online by December 11, 2017. The Midyear Meeting student registration fee is \$200 for AAA student members.



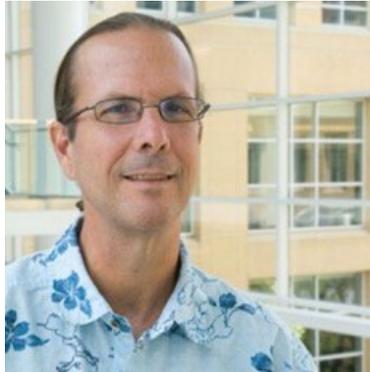
We thank the [KPMG Foundation](#) for its continued and generous support in sponsoring the 2018 Auditing Section Midyear Meeting and the 19th Annual Auditing Section Doctoral Consortium.

Make plans now to join us in Portland in January!

Regards,

Tina Carpenter, Margaret Christ and Jaime Schmidt
2018 Auditing Section Midyear Meeting Co-Directors

In Memoriam
Bryan K. Church
June 6, 1959 - April 29, 2017



Bryan Church, a distinguished scholar and member of the Auditing Section, passed away on April 29, 2017. Bryan was a loving father, husband, brother, friend, and professor. Bryan studied accounting despite his dream of becoming a composer due to advice from his mother to pursue a more practical career. He earned his Bachelor's and Master's degrees from the University of North Florida and his PhD in accounting from the University of Florida. Bryan joined the faculty at Georgia Tech in 1986, and with the exception of five-years at Wilfrid Laurier University in Waterloo, Ontario, he spent his entire career there.

Bryan was a successful scholar whose body of research has made a great contribution to behavioral research in auditing, managerial and financial accounting, finance, and economics. The breadth and depth of Bryan's work is remarkable. He has published 69 papers in over 40 journals, most notably at *Journal of Accounting Research*, *The Accounting Review*, *Contemporary Accounting Research*, *Accounting, Organizations and Society*, *Auditing: A Journal of Practice and Theory*, *Accounting Horizons*, among many others. Much of his work uses experimental economics to better understand individual judgment and behavior. Bryan has received numerous awards for his scholarly work and contributions.

Bryan was a devoted member of the accounting research community. He has served as an editor for *Behavioral Research in Accounting*, as a member of the editorial board for *Accounting Horizons*, *Auditing: A Journal of Practice and Theory*, *Behavioral Research in Accounting*, *International Journal of Behavioral Accounting and Finance*, and *International Journal of Accounting, Auditing, and Performance Evaluation*, and as an ad hoc reviewer for more than 40 journals. He was also very active in the Auditing Section, serving as a faculty participant at several Auditing Section doctoral consortiums and as an Auditing Section Liaison and Committee Member for several AAA Meetings.

Bryan primarily taught auditing courses and was beloved by his students. He was also a deeply invested advisor and mentor to many, serving on and chairing many dissertation committees and actively working with PhD students and junior faculty. Bryan remained dedicated to his PhD students after graduation, becoming a life-long friend and mentor.

While Bryan was a serious scholar, his true passion in life was spending time with his family—his wife, Lucy Ackert, and his three children, Moira, William, and Rory. He also loved his dogs and the outdoors. He completed several marathons, ultramarathons, and enjoyed hiking in the mountains.

Bryan will be deeply missed by his family, colleagues, students, the Auditing Section and the profession overall. For those who were fortunate to know Bryan, they will miss his quirky sense of humor, his contagious laugh, his love for shorts and contempt for pants, his ponytail, and his free spirit. Bryan lived life to the fullest and is an inspiration to all.