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Report of the President

By Kathryn Kadous



I hope your Fall semester is going great! Fall weather hasn't arrived in Atlanta, yet, as I write this, but the energy of new students, new classes, and new projects has. I hope you are all enjoying an exciting and productive semester.

It is an honor for me to serve as President of the Auditing Section. I would like to start my letter by thanking all of those who serve on the Executive Committee, the Section's standing committees, and the ad hoc committee volunteers that generously give their valuable time to the Section. This Fall, I am particularly pleased to serve alongside an active and engaged Executive Committee. The Executive Committee, along with additional volunteers serving on ad hoc committees, are currently working on a number of strategic initiatives to ensure that the section serves you as best it can. On another front, the Section's standing committees are doing great work to ensure that we have high quality meetings, meaningful interactions with practice, and positive impacts on education, practice, and standard setting. The standing committees do a lot of additional work to keep the Section running smoothly. I will briefly discuss some of the work that is going on and then will provide a brief recap of the Annual Meeting, a preview of the upcoming Midyear Meeting, and some news about research opportunities.

The Auditing Standards Committee (ASC) is tasked with providing insight from our research to the standard-setting process. This hard-working committee, led by Denise Dickens (Chair), Veena Brown (Vice Chair), and Marshall Geiger (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 to thank the members who have contributed to each of those project teams.

The AICPA Assurance Research Advisory Group, Chaired by Randy Elder, is currently reviewing proposals for new research projects. The Fall deadline for proposals has passed, but deadlines for other programs are coming up soon. Please see the end of this letter for these additional opportunities.

Annual Meeting 2018

I hope you had the opportunity to attend the meeting in National Harbor, MD. It is always great to catch up with friends and colleagues, and the sessions were great, too! I would like to thank the meeting Chairs Monika Causholli, Adi Masli, Sarah Rice, and Chad Stefaniak for putting together an impressive program. They managed the review process, put together concurrent sessions and panel sessions, assigned moderators and discussants, and assisted the AAA staff in ensuring a valuable experience for all of our members. They were assisted by Vice Chairs Tamara Lambert, Phil Lamoreaux, Joe Schroeder, and Karen Ton, who will soon get to work planning next year's annual meeting. Planning these meetings is a lot of work and they all did a fantastic job, handling 217 manuscript submissions and putting together 36 concurrent sessions and 4 panel sessions this year. Please thank them the next time you see them. And please remember to register each year to volunteer to serve as reviewer, discussant, or moderator when you see the call go out to make their lives easier.

Prior to the annual meeting, the Center for Audit Quality (CAQ) hosted their Annual Symposium. The Symposium brings together senior practice leaders and academics for a dialogue on issues of importance to the profession. This year's sessions focused on navigating the challenges of new standards and the evolving needs of the audit of 2023. You can view those panel discussions on the CAQ website at:

<https://www.thecaq.org/resources/videos>.

At the Section lunch meeting, we welcomed our new Executive Committee members: Scott Vandervelde as Vice President – Academic, Becky Sproul as Vice President – Practice, Marsha Keune as Secretary, and Randy Elder as our Council Representative. The remaining committee members include Rick Hatfield, who assumes the role of Past President after an awesome year as President, Chad Stefaniak, who continues as Treasurer, and Mark Taylor who continues as Historian. We thanked Karla Johnstone for her service as Past President, Dan Sunderland for his service as Vice President – Practice, Susan Scholz for her service as Secretary, and Urton Anderson for his service as Council Representative. Please feel free to contact any of the Executive Committee members if you have questions about the Section or suggestions for how we can serve you better.

2019 Midyear Meeting in Nashville, TN

2019 marks our 25th Midyear Meeting. Our silver anniversary meeting will be held at the Omni Nashville Hotel Galleria in Nashville, TN on January 17-19. I am told that the hotel is in a fabulous location, across the street from the Country Music Hall of Fame and within walking distance of the riverfront. Leading the meeting are Co-Chairs Ken Bills, Chan Li and Drew Reffett, who have been hard at work to put together a great program for you. They are ably assisted by Vice Chairs Pennie Bagley, Allen Blay, and Marleen Willekens. We are so grateful to KPMG for their continued support of the Midyear Meeting. KPMG's support greatly enhances the value of this event.

The planning team has some great ideas that we will be trying out during the midyear meeting. First, to highlight great scholarship, we reserved the Saturday plenary session for presentation of a few of the best papers submitted to the meeting. The authors will get a chance to present their papers without other sessions competing for the audience, and, perhaps more importantly, we won't have to decide which interesting paper session to attend. Second, we will be running a poster session during an afternoon coffee break in lieu of the breakfast research forum. Authors of papers selected for the poster session will have the opportunity to create visual displays of their work, and meeting participants can peruse the displays and ask questions of the authors. I expect we will get some interesting conversations going over posters and coffee. In addition, the team is working on an exciting Friday plenary session (fingers crossed), and has in place very informative panels sessions about the PCAOB's new strategic plan, what you need to know about internal controls for teaching and research, and a discussion of whether universities are providing accountants with the skill sets they need for future accounting jobs. In all, it will be a fun, informative, and interesting meeting, so you won't want to miss it.

We will once again have two events on the Thursday preceding the Midyear Meeting: the Doctoral Consortium and the Excellence in Audit Education Workshop. The Chair of this year's Doctoral Consortium, Susan Scholz, has put together an excellent program with the assistance of Vice Chair Justin Leiby. The consortium is an incredible experience that doctoral students should not miss. This year's Consortium will cover all the essentials in half a day, making it possible for some doctoral students to save a day of travel. We thank KPMG for sponsoring this valuable event. The Excellence in Audit Education Workshop is put together by committee Chair Helen Brown-Liburd, Vice Chair Jason Smith, and Practice Chair Becky Sproul. The theme of the 2019 workshop is "Integrating Big Data and Audit Data Analytics Methodologies in the Classroom." The workshop brings practitioners and educators together to explore innovative methods of incorporating Big Data and Audit data analytics in the classroom. There is a lot going on in practice in this area, and some really interesting case presentations are planned. If you teach auditing, you will not want to miss this event.

PCAOB Research Fellows Program

You may have seen that the PCAOB is soliciting applications for research fellows. I hope you will consider applying. The Program's goal is to sponsor high quality publishable research on topics relevant to the PCAOB's mission. Tenured and tenure-track faculty and doctoral students who have completed coursework are invited to apply by December 15, 2018. You may not be aware that the PCAOB also considers proposals from candidates who are not in a position to take a paid research fellowship position, but would like to use PCAOB data for a project. That's right—you may be able to use PCAOB data for a project without moving to Washington for a year! Both routes are great opportunities to conduct important research that can impact standard setting. Please see full details at:

<https://pcaobus.org/EconomicAndRiskAnalysis/econfellowship>.

CAQ Grants

The CAQ's Access to Audit Personnel Program assists scholars in obtaining access to auditor participants for experimental/behavioral research. I encourage Section members to apply. To be considered, submit your well-considered proposal with a complete data collection instrument by February 4, 2019. Winners of the 2019 AAP grants can expect to collect data from auditors during the Summer of 2019. To increase your chances for a successful submission, please see the CAQ's website for a helpful video on preparing a successful 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 Nashville in January!

Kathryn Kadous

President

PCAOB Update

By Barbara Vanich – PCAOB Acting Chief Auditor, Jennifer Rand – Deputy Chief Auditor and Elena Bozhkova – Assistant Chief Auditor

Introduction

This Update addresses selected PCAOB developments since the Summer 2018 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Research Fellowships
- Scholarships for 2018-2019 Academic Year
- PCAOB Seeks Public Comment on Draft Five-Year Strategic Plan
- Annual Report on 2017 Inspections of Broker-Dealer Auditors
- Cooperative Agreement with Austrian Audit Regulator

Research Fellowships

The PCAOB maintains a Research Fellowship Program that is intended to generate high quality publishable economic research on topics of direct relevance to the PCAOB mission. The program provides a way for the Board to obtain outside perspectives in analyzing data collected by the PCAOB through its oversight activities. Fellows have the opportunity to engage closely with PCAOB staff in the development of research projects and they serve as a valuable resource to staff economists.

The PCAOB is currently soliciting interested applicants for research fellowships. Ideal candidates for fellowship positions include:

- Tenured or tenure-track junior faculty members in economics, finance, accounting, or a related area.
- Doctoral students, who have completed all course work in a doctoral program in economics, finance, accounting, or a related area, and are actively performing research or writing a dissertation.

The PCAOB is interested in receiving proposals that will inform the Board's efforts to promote continuous improvement in the quality of audit services. In particular, the PCAOB is increasingly focused on data analysis and emerging technologies to drive its mission and improve audit quality. As a result, the PCAOB is interested in receiving research proposals in these areas as well.

Applications are due no later than December 15, 2018.

More information about the application process, selection, compensation, and other relevant information is available on the PCAOB website at:

<https://pcaobus.org/EconomicAndRiskAnalysis/econfellowship/Pages/default.aspx>.

Scholarships for 2018-2019 Academic Year

On July 26, 2018, 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 332 colleges and universities listed at

<https://pcaobus.org/News/Pages/2018-scholarship-recipient-institutions.aspx>.

This is the eighth 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.

Participating educational institutions nominate a scholarship recipient from students enrolled in their 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.
- Not be a PCAOB employee or a child or spouse of a PCAOB employee.

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:

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

PCAOB Seeks Public Comment on Draft Five-Year Strategic Plan

On August 10, 2018, the PCAOB released a draft of its five-year strategic plan, for the first time inviting public comment on its areas of strategic focus in fulfilling its mission to protect investors and the public interest through high quality audit reports. After its own careful study and a survey of PCAOB staff and the public, the new Board intends to:

- Broaden its approach to driving improvement in the quality of audit services and more clearly communicate how it is driving that improvement.
- Ensure that its inspections and standard-setting activities are responsive to and do not impede technological innovations.
- Engage proactively more often and directly with investors, audit committees, and other stakeholders to encourage relevant and timely conversations about the quality of audit services.
- Optimize PCAOB operations to more efficiently and effectively use resources.

- Reinforce the PCAOB's culture of integrity, excellence, effectiveness, collaboration, and accountability.

The PCAOB Draft Strategic Plan 2018-2022 includes a draft of the PCAOB's mission, vision, values, strategic goals and objectives, as well as key factors affecting the strategic outlook. The strategic plan is designed to align PCAOB programs, operations, and activities with its overall mission, goals, and objectives.

The PCAOB's strategic plan serves as a roadmap for the organization, as well as the basis for its budget each year. Comments were due September 10, 2018.

The draft strategic plan and comments can be found on the PCAOB website at:

<https://pcaobus.org/Pages/PCAOB-Strategic-Plan-2018-2022.aspx>.

Annual Report on 2017 Inspections of Broker-Dealer Auditors

On August 20, 2018, the PCAOB issued a report on its inspections in 2017 of auditors of brokers and dealers that shows a continued high number of audit deficiencies overall, and fewer independence violations than in previous years.

In this inspection period, the PCAOB inspected 75 audit firms and reviewed portions of 116 audits and the related attestation engagements. Inspectors identified deficiencies at 68 of the 75 firms inspected, or 91 percent, down from 97 percent in 2016. Many of the deficiencies identified were fundamental to conducting audits, examinations, or reviews.

Audit deficiencies were identified with the highest frequency in the following areas: auditing revenue, assessing and responding to risks of material misstatement due to fraud, and auditing supplemental information for the customer protection rule.

Audit firm quality control system deficiencies were identified in areas such as exercising due professional care and performing engagement quality reviews.

The report is available on the PCAOB website at:

<https://pcaobus.org/Inspections/Documents/Broker-Dealer-Auditor-Inspection-Annual-Report-2018.pdf>.

An executive highlights document is available at:

<https://pcaobus.org/Inspections/Documents/PCAOB-Executive-Highlights-Broker-Dealer-Auditors-2017-Inspections.pdf>.

Cooperative Agreement with Austrian Audit Regulator

On September 13, 2018, the PCAOB announced that it has entered into a cooperative agreement with the Audit Oversight Body of Austria.

This agreement provides a framework for joint inspections in the oversight of audit firms subject to the regulatory jurisdictions of both organizations. It also allows for the exchange of confidential information. The agreement is available on the PCAOB website at:

https://pcaobus.org/International/Documents/Cooperative_Agreement_Austria.pdf.

The PCAOB now has cooperative agreements with 16 audit regulators in Europe, and negotiations are well advanced with the one remaining European country where inspections currently are required. Beyond Europe, there are only two jurisdictions where the PCAOB is still prevented from conducting required inspections of audit work performed by PCAOB-registered firms. A list of the public companies based in these jurisdictions that trade in the United States is available on the PCAOB website at:

<https://pcaobus.org/International/Inspections/Pages/IssuerClientsWithoutAccess.aspx>.

GAO Update

By Larry Malenich and Maxine Hattery

Revised "Yellow Book" Standards for Government Auditing Are Updated

An expanded independence standard and a first-ever definition of “waste” are among the changes in GAO’s update of the generally accepted government auditing standards (GAGAS) contained in the “Yellow Book.” Last revised in 2011, the Yellow Book is designed to help government auditors at the federal, state, and local levels produce high-quality audits that reflect competence, integrity, objectivity, and independence.

The new revision contains major changes from the 2011 revision. The changes reinforce the principles of transparency and accountability and strengthen the framework for high-quality government audits. These changes are summarized below:

- All chapters are presented in a revised format that differentiates requirements and application guidance related to those requirements.
- Supplemental guidance from the appendix of the 2011 revision is either removed or incorporated into the individual chapters.
- The independence standard is expanded to state that preparing financial statements from a client-provided trial balance or underlying accounting records generally creates significant threats to auditors’ independence, and auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level or decline to perform the service.
- The peer review standard is modified to require that audit organizations comply with their respective affiliated organization’s peer review requirements and GAGAS peer review requirements. Additional requirements are provided for audit organizations not affiliated with recognized organizations.
- The standards include a definition for waste.
- The performance audit standards are updated with specific considerations for when internal control is significant to the audit objectives.

To ensure that the standards meet the needs of government auditors, the Comptroller General has an [advisory council](#) consisting of representatives from federal, state, and local governments; the private sector; and academia. During the public comment period, GAO’s Yellow Book team reviews feedback received on the revision’s exposure draft. GAO considers all comments and input from when finalizing revisions to the standards.

The 2018 revision of the Yellow Book is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. Early implementation is not permitted.

The 2018 Yellow Book (GAO-12-331G), is available on GAO’s website at

<https://www.gao.gov/yellowbook/overview>.

And a [podcast](#) is available too, at

<https://www.gao.gov/products/GAO-18-568G>.

New Web-Based Report Format, Same Fact-Based Analysis

Blue is back on the cover of a GAO report, the first issued in a format that features easy online navigation and a responsive design allowing access on different-sized devices, including smartphones. The web-based version of the study—*Community Banks: Effect of Regulations on Small Business Lending and Institutions Appears Modest, but Lending Data Could Be Improved* ([GAO-18-312](#)) - is available on the GAO website along with a PDF version.

Part of a multiyear effort to move away from PDF-only publishing for all audit reports, the web-based report uses a new GAO technology designed to enable efficient and scalable publication of products to the web. The format is intended to accommodate the rising demand for content that can be accessed quickly and easily by users on the go.

The web-based report format facilitates intuitive navigation so users can jump to any section of the report with a click. The layout follows the U.S. Web Design System's usability and formatting standards for government, managed by the General Services Administration.

The first report is a pilot of the technology, and additional web-based reports are expected to be issued in 2019.

GAO Followers Can Check "Just Facts"

GAO issues nearly one thousand reports, testimonies, and legal decisions each year, all based on nonpartisan, fact-based work. And while the headlines quickly fade in today's fast-paced news cycle, there are still hundreds of thousands of facts buried in GAO's body of work. So GAO has begun tweeting a daily fact from its audits and evaluations of programs across the federal government to help raise awareness of this work.

Followers of the GAO Twitter account ([@usgao](#)) have received the first of many interesting, if overlooked, factual nuggets from our #JustFacts initiative. (Fact: Over 65% of households in the U.S. relied solely or mostly on wireless phones to make and receive phone calls as of 2016.) Each tweet will also contain a link to the complete report to facilitate further reading.

Those interested in following GAO on Twitter can do so at <https://www.twitter.com/usgao>.

AICPA Auditing Standards Board Update

By Audrey Gramling

Oklahoma State University and Auditing Standards Board Member

In July 2018, the Auditing Standards Board held its meeting at the office of the National Association of State Boards of Accountancy (NASBA) in Nashville, TN. The Board continued its work on a number of ongoing projects. For each of the projects, I provide brief updates and appropriate links below.

July 2018 Meeting Highlights

Reports on ERISA Audits

The ASB reviewed and revised a draft of the proposed Statement on Auditing Standards (SAS) *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. The ASB voted to ballot the proposed SAS for issuance as a final standard. Subsequent to the meeting, all board members approved issuance of the standard as final. The effective date of the proposed SAS will be aligned with the effective date of the proposed Auditor Reporting standards. You can find Letters of Comment on *Exposure Draft of Proposed Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* [here](#).

Auditor Reporting: 700 Series

The ASB discussed preliminary feedback from the [comment letters](#) received on the [exposure draft](#) *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*. The two issues for further consideration resulting from the comment letters included: (1) the timing of communications with those charged with governance, and (2) the inclusion of the City and State of the Addressee in the Auditor's Report. With respect to the first issue, the ASB noted that 81% of respondents supported no change to the existing standards as it relates to the timing of communications with those charged with governance. However, the ASB also noted the importance of certain communications being made prior to the release of the auditor's report. With respect to the second issue, the board requested consideration of the standard including a requirement for the state and city of the addressee to be included in the auditor's report. The ASB plans to review a revised draft of the standard at its October meeting.

Other Information

The ASB discussed comments received on the public exposure of the proposed Statement on Auditing Standards, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. The proposed SAS was a result of the project to revise AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*, in order to converge with International Standard on Auditing (ISA) 720 (Revised) *The Auditor's Responsibilities Related to Other Information*. You can find the

Comment Letters related to the proposed SAS [here](#); the proposed SAS is available [here](#). While there was support for many of the changes in the proposed SAS, concerns related to the proposed requirement for the auditor to include a separate section in the auditor's report addressing other information and the proposed performance requirements with respect to other information were noted. The ASB decided to move forward with the project and will discuss the project further at the October 2018 meeting.

Auditor Reporting: 800 Series

The ASB reviewed drafts of proposed standards to revise the AU-C 800 series of standards, which consists of AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, AU-C 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, and AU-C 810, *Engagements to Report on Summary Financial Information*.

These revisions are being made to make these standards consistent with changes proposed to the AU-C 700 sections on auditor reports. The ASB discussed issues related to the applicability of the going concern basis of accounting to audits of financial statements prepared in accordance with a special purpose framework, and audits of single financial statements, specific elements, accounts, or items of a financial statement.

Proposed Statement on Auditing Standards, *Omnibus Statement on Auditing Standards — 2018*

The ASB discussed revisions to proposed [Statement on Auditing Standards, *Omnibus Statement on Auditing Standards — 2018*](#), based on [comment letters](#) received in response to the exposure draft. The comment letters were generally supportive. A revised draft will be brought to the ASB at its October meeting, when a vote to issue the final standard is expected.

ASB Reminders

You can find a list of current ASB members and their biographies [here](#). And, you can find meeting highlights and dates of upcoming meetings [here](#). If you are interested in being an ASB meeting observer at a future meeting, you will find the registration form [here](#). Meetings and meeting materials and highlights are open to the public, except for sessions dealing with administrative or confidential matters.

Have you Seen...?

Lindsay M. Andiola, Virginia Commonwealth University

Stephen Fuller, Suffolk University

James D. Whitworth, University of South Florida

“Auditors’ Use of Formal Advice from Internal Firm Subject Matter Experts: The Impact of Advice Quality and Advice Awareness on Auditors’ Judgments.” By Nicole Wright and Sudip Bhattacharjee. *Contemporary Accounting Research* 35 (2): 980-1003.

This study addresses how auditor advice taking from technical accounting experts within the firm influences auditors’ judgments. Specifically, the authors investigate whether the impact depends on both when the auditor becomes aware that advice will be given and the quality of the advice. Based on audit staffing decisions, auditors may become aware of the inclusion of a technical expert on the audit team before the audit begins or later during the course of the audit. The authors argue that awareness of the forthcoming advice before the audit induces a social facilitation effect, which leads to greater effort before the advice, greater resistance to the client’s aggressive accounting treatment, and more effective assessment of advice quality in reaching final judgments. The authors conduct a 2x2 between-subjects experiment with 77 senior auditors that varied *advice awareness* (before or during the course of the audit) and *advice quality* (high or low). As predicted, auditors that were aware of the forthcoming advice before the audit gave greater effort and reached pre-advice judgments that were more resistant to an aggressive accounting treatment than auditors that were not yet aware that advice was forthcoming. After advice was given, auditors that were aware of the forthcoming advice also discerned the quality of the evidence more effectively leading to more accurate final judgments.

“Staff Auditors’ Proclivity for Computer-Mediated Communication with Clients and its Effect on Skeptical Behavior.” By G. Bradley Bennett and Richard Hatfield. *Accounting, Organizations and Society* 68-69: 42-57.

This study investigates whether staff auditors have a propensity to employ computer-mediated communications (CMC) with clients, such as email, and whether this communication mode has a negative effect on auditor skepticism. First, the authors conduct structured interviews with partners, as well as survey auditors from staff to partner level. Collectively, the interviews and surveys confirm partners’ concerns that staff auditors too frequently prefer e-mail communications with clients when face-to-face communication may be preferable. The authors argue that the social presence of auditors during face-to-face communications fosters more synchronous discussion and greater questioning behavior, particularly in an ambiguous task. The authors conduct a 3x1 between-subjects experiment with 60 staff auditor participants varying the communication mode (e-mail, face-to-face, face-to face with deception cues) used to communicate with an experimental confederate about an ambiguous audit task. The authors collect measures of the auditor-client interaction including the number of auditor questions, the documents requested, and the relationship-building comments. The overall skepticism of the participant during the client exchange was also assessed. As predicted, face-to-face communication led auditors to ask more questions, request fewer documents, and make greater use of relationship-building comments than e-mail communication. In addition, when deception cues were observable in

face-to-face communications, auditors were more skeptical than when such cues were absent or when e-mail communications rendered the cues unobservable.

“The Role of Tacit Knowledge in Auditor Expertise and Human Capital Development.” By Jasmijn Bol, Cassandra Estep, Frank Moers and Mark Peecher. *Journal of Accounting Research* 56 (4): 1205–1252.

This study seeks to update and enrich our understanding of the value audit firms place on the tacit knowledge of auditors. The authors also investigate how tacit knowledge develops in inexperienced auditors and the implications of successful development of tacit knowledge for long-term commitment of auditors to the firm. In study 1, the authors use a multi-method approach that includes a qualitative field study, proprietary performance evaluation data, and employee survey data from a Dutch regional audit firm. In contrast to prior research, the authors predict that firms value tacit knowledge in inexperienced auditors because the expectations placed on new auditors to perform more complex tasks requiring tacit knowledge has significantly increased in recent years. The authors further predict that experienced auditors whose own tacit knowledge is higher will place greater value on inexperienced auditor tacit knowledge. Results of the study support each of these predictions. In addition, the authors find that inexperienced auditors with higher tacit knowledge express greater commitment to the firm than those with lower tacit knowledge. Finally, in study 2, the authors survey U.S. auditors to examine whether their results are generalizable. They find that the U.S. survey results were consistent with the Dutch results.

“Is There a Relation Between Residual Audit Fees and Analysts’ Forecasts?” By John Abernathy, Tony Kang, Gopal Krishnan and Changjiang Wang. *Journal of Accounting, Auditing, and Finance* 33 (3): 299-323.

This study investigates the relationship between residual (or abnormal) audit fees through a different lens than prior literature’s emphasis on a high accounting quality explanation by exploring whether unexplained audit fees are a risk premium for lower accounting quality. The authors find that residual audit fees are associated with earnings being less predictive of future earnings, lower accuracy in analyst forecasts, and greater dispersion in analyst forecasts. Thus, abnormal audit fees may be capturing a lower quality information environment or innate performance volatility that is indicative of earnings with less relevance due to decreased predictive value.

“Auditor-Provided Lobbying Service and Audit Quality.” By Brian Burnett, Hui Chen and Katherine Gunny. *Journal of Accounting, Auditing, and Finance* 33 (3): 402-434.

Using political action committee filing data, this study examines a potential threat to auditor independence: lobbying on behalf of a particular audit client. While advocating for an audit client or their position on an issue may not necessarily constitute impaired independence in fact (particularly if the auditor wholly agrees with the position), it can create a *perception* of impaired independence (in appearance) to investors and outsiders. Related to the possibility of independence in fact remaining intact while raising independence in appearance concerns, the authors find that the capital market responds more modestly to earnings of companies whose auditor has lobbied on their behalf, while several measures of actual audit quality do not support impairment in fact. This is consistent with the

existing incentives and mechanisms to protect auditor independence being effective in mitigating an independence in fact threat, despite the perceptions of external stakeholders.

“Auditor Tenure and Quality of Financial Reporting.” By Ling Chu, Jie Dai and Ping Zhang. *Journal of Accounting, Auditing, and Finance* 33 (4): 528-554.

This study reexamines the impact of auditor tenure on financial reporting quality, but examines an additional contextual factor. Specifically, the authors examine the impact of longer auditor tenure when conditioned on the degree of litigation risk posed by the client. The authors find a main effect of a downward bias (income and net asset reducing) in nonoperating accruals that become less downwardly biased as auditor tenure increases, suggesting greater conservatism on the auditor’s part with newer clients. Contrary to that unconditional decrease in downward bias as tenure increases, riskier audit clients see an increase in downward bias as tenure increases. This finding may help explain the mixed results of prior literature on the influence of longer auditor tenure on financial reporting quality, as it points to the importance of examining auditor tenure in a broader context.

Have You Seen These Educational Resources?
By Education Committee of the AAA Auditing Section
Patricia Johnson, D'Youville College
Penelope Bagley, Appalachian State University
Jordan Lowe, Arizona State University

“Selecting an Auditor for Bradco using Indicators of Audit Quality.” By Denise Dickens, Anna Johnson-Snyder and John Reisch. *Journal of Accounting Education*. Forthcoming.

In this case, students are introduced to the auditor selection process and how indicators of an auditor's audit quality may influence that process. Students will gain an understanding of factors that can affect audit quality and apply that knowledge in a decision-making task – selecting an auditor. Students will also learn to delineate how certain inputs (e.g., auditor training) may influence how an audit is conducted and certain outputs (e.g., PCAOB inspection findings) may measure or indicate whether an audit was conducted with an appropriate level of quality.

“Will and Caroline: Accounting, Professional Integrity and Lobbying.” By Kate Jelinek. *Journal of Accounting Education* (43): 76-88.

This case engages students through an interaction of two staff auditors, to use their critical thinking to consider whether there is a potential conflict between integrity and accounting firm lobbying. The purpose of this case is to increase familiarity with professional integrity, as described in the AICPA's Code of Conduct, and enhance understanding of how integrity might influence the behavior and conduct of both accountants and accounting firms

“Super Shears: Micro Cases to Reduce Confirmation Bias in Evaluating Management Estimates.” By Carol Sargent and Carol Bishop. *Current Issues in Auditing*. Forthcoming.

The purpose of this two-case set is show the need for and effectiveness of practice in evaluating evidence and auditing management estimates. Students are required to identify and evaluate confirming and disconfirming evidence for management's accrual for allowance for uncollectible accounts and warranty reserves. The cases specifically target the perennial problem of “confirmation bias.”

“Using Tableau to Visualize Data and Drive Decision Making.” By Jamie Hoelscher and Amanda Mortimer. *Journal of Accounting Education* (44): 49-59.

Using data visualization software, Tableau, this case requires students to connect to an Access file in an effort to analyze sales transaction data for a small startup company. The case requires students to perform analysis to identify sales trends and report the information to help enhance business decision making. The context of this case is not audit specific, however further exposure to identifying trends using data analytics could be helpful for performing various audit tasks.

“Audit D&A Case Study: Urgent Medical Device, Inc.” By Allen Blay and Jay Thibodeau. KPMG University Connection.

This case provides students with the opportunity to integrate IDEA data analysis software and pre-prepared visualizations from Tableau software in an auditing risk assessment context. The case is designed to accomplish many goals, including providing a realistic audit context for interpreting and analyzing data, helping students interpret data visualizations and determining the implications for the audit, and understanding fraud risks associated with revenue recognition and the impact on testing revenues and accounts receivable. Available at:

https://www.kpmguniversityconnection.com/University/view/curriculum/?module_id=148

“Bryan’s Amazing Animals and Where’s da Beef?” By EY.

These two cases, part of the Innovation Mindset series, help familiarize students with the inventory process in general while introducing new technologies to make the inventory counting process more effective and efficient. Students will have the opportunity to see how drones can be used in the inventory counting process through simulations. Automated counting software, CountThings, is made available free for academic licensing for use in working through the cases.

[https://www.ey.com/Publication/vwLUAssets/EY_Academic_Resource_Center/\\$FILE/EYARC-brochure.pdf](https://www.ey.com/Publication/vwLUAssets/EY_Academic_Resource_Center/$FILE/EYARC-brochure.pdf)

“Peach State University Hotel – Fraud.” By EY.

This case study is an addition to the Peach State University series. It focuses on financial statement fraud and provides an overview of the procedures the auditor is required to perform to assess fraud risk and detect fraud. It is part of the Analytics Mindset series. The user guide discusses using the case as a standalone or in conjunction with the other Peach State University cases. This case is aligned with the EY Helix General Ledger Analyzer for Students, a simplified audit analytics tool based on elements of EY’s proprietary software designed for the classroom. The case helps students see how data analytics can be used to detect fraud.

[https://www.ey.com/Publication/vwLUAssets/EY_Academic_Resource_Center/\\$FILE/EYARC-brochure.pdf](https://www.ey.com/Publication/vwLUAssets/EY_Academic_Resource_Center/$FILE/EYARC-brochure.pdf)

Twenty-Fifth Annual Midyear Auditing Section Conference



Dear Members,

Please make plans to attend the [Twenty-fifth Annual Auditing Section Midyear Meeting](#) in Nashville, Tennessee January 17-19, 2019.

[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 beautiful Omni Nashville Hotel, conveniently located across the street from the Country Music Hall of Fame and within walking distance of all that downtown Nashville has to offer. A limited number of rooms have been reserved at the conference rate. PLEASE make your reservations as early as possible to take advantage of this special room rate. Note we cannot guarantee that any additional rooms will be available in the hotel once our block of rooms is sold out, even if the block is sold out before the cut-off date. Complimentary internet access is offered in guest rooms, if booked within group block. A limited number of rooms have been reserved at a rate of \$234 per night. **Please make your [Hotel Reservations](#) before December 19, 2018 to take advantage of this special room rate. Register Online for the Early Registration fee of \$345 (\$225 for doctoral students) through December 11 for Auditing Section Members**, after which the Registration fee is \$375 (\$255 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 Charles Bame-Aldred, Northeastern University, and others.

Doctoral Student Registration Information

The [20th Annual Auditing Section Doctoral Consortium](#) chaired by Susan Scholz will be held on January 17. 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://www2.aaahq.org/aaaforms/AUDITDC/2018/index.cfm>

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 17, 2018. The Midyear Meeting student registration fee is \$225 for AAA student members.



We thank the [KPMG Foundation](#) for its continued and generous support in sponsoring the 2019 Auditing Section Midyear Meeting and the 20th Annual Auditing Section Doctoral Consortium.

Make plans now to join us in Nashville in January!

Regards,

Ken Bills, Chan Li and Drew Reffett
2019 Auditing Section Midyear Meeting Co-Directors

