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Report of the President

By Christine Earley



I am very honored to begin serving as the President of the Auditing Section as of August 2021. As I was preparing this report and thinking about the topics I wanted to cover (e.g., the 2021 Annual Meeting, the 2022 Midyear Meeting, the section membership), I was stopped in my tracks by the news that the section had lost a dear friend and longtime section member, Dr. Sandra Shelton. It is always difficult to hear of the passing of one of our section members, but particularly hard in this case, as Sandra was a young and vibrant professor who gave so much to her colleagues, and her community. Sandra and I got to know each other through multiple dinners at conferences and when I taught Audit Bootcamp in Chicago, as well as when we instructed for KPMG. She was a mentor and an inspiration to many of her junior colleagues, for whom she paved the way in academia. If you want to read more about Sandra's impact on the academy and her university (DePaul), please refer to the earlier e-mail sent out by the AAA and visit the DePaul website at the following link: <https://business.depaul.edu/news-events/Pages/2021-10/remembering-sandra-shelton-accountancy-professor.aspx>. Sandra will be greatly missed.

2021 Annual Meeting

The Annual Meeting was held virtually again this year, and many great interactions with colleagues from our section took place. Some highlights from the meeting were the plenary session on thought leadership which took place on Tuesday, August 3rd featuring section member and AAA Presidential Scholar, Jennifer Joe followed up by a great panel session elaborating on the ideas in her talk. I also attended an extremely informative panel hosted by EY which showcased the EY Academic Resource Center (EYARC) cases available to faculty, and a panel by section members Scott Showalter and Jeff Wilks, incoming editors of *Accounting Horizons*, discussing changes to the journal going forward. Our section hosted a networking event on Monday, August 2nd that was well attended and surprisingly less awkward in a virtual setting than I imagined it would be.

2022 Midyear Meeting

As great as it was to see many of you virtually at the past few meetings, I am really looking forward to the in-person Midyear Meeting in Las Vegas this January! The planning committee (Lauren Cunningham, Steve Perreault, and Sarah Stein) has been working hard to put together a fun and informative program. I also wish to acknowledge the planning committee co-chairs (Aaron Saiewitz, Marcy Shepardson, and Quinn Swandquist) for working hard on the program and scheduling presenters, Jason Smith, for helping to scout out the location and provide a contact for our plenary speaker, and Kelli Rickrode from the AAA for her help with planning and logistics. Our Friday plenary speaker is Bob Rudloff, Senior VP of Internal Audit for MGM Resorts, who will discuss audit and internal control issues in the casino gaming industry. We are excited that Bob can join us as he has had an impressive career that has included work with PwC, Caesars, and now MGM. We are also preparing a panel session with the winner of the Notable Contributions to the Auditing Literature award winners, and the committee is also planning a few other surprises that I think everyone will enjoy. The Doctoral Consortium is being organized this year by Rich Hatfield and the Auditing Educators' Workshop is being organized by Erin Hamilton. Both events will be held on the Thursday before the meeting, as is usually the case for in person meetings. I hope you can join us in Vegas as it will be wonderful to see everyone in person again.

2022 Auditing: A Journal of Practice & Theory COVID-19 Issue

The ongoing COVID-19 pandemic is having an unprecedented social and economic impact on society. In the midst of this event, there is a growing sense that research is needed to assess the ramifications of the pandemic in different areas. As such, AJPT is calling for papers for a research Forum on COVID-19. This Call will remain open through June 30, 2022 (note this is an extension of the original due date). Read about the full call and how to submit by clicking [here](#).

Finally, I want to say a few words about section membership. First, I want to thank Keith Jones for leading the section through a very difficult year as President, and Scott Vandervelde from his help in his role as Past President, as well as Tina Carpenter who kept our Finances on track as Treasurer, and Randy Elder who served as our AAA Council representative. These great section leaders deserve our appreciation for keeping the section strong through the worst of the pandemic. In addition, one of the roles of the VP Academic (President Elect) is to ask section members to serve on committees of the section. This includes the standing committees, such as Research, Education, Communications, Auditor's Report and Standards, as well as our liaisons to all of the AAA Regions, numerous award committees and meeting planning committees (annual and midyear). All in all, 84 volunteers agreed to serve in these roles, and this doesn't include the eight members of the Executive Committee. Many of these members serve multiple year terms. When I reached out to everyone in May and June to fill these roles, I had very few members turn down my requests, and those that did had excellent reasons for doing so. I point this out to show you how strong our section is and to express my gratitude for everyone's willingness to help out. If you are interested in serving on a committee next year, you can volunteer through the AAA who will provide us with the list of volunteers for Allen Blay (our current VP Academic) to use in making committee assignments next spring.

I hope the rest of your Fall semester goes well and things begin to return to a better version of the new normal for everyone soon. See you in Vegas!

Sincerely,

Christine Earley

PCAOB Update

By Barbara Vanich and Elena Bozhkova

PCAOB Acting Chief Auditor and PCAOB Assistant Chief Auditor

Introduction

This Update addresses select PCAOB developments since the Summer 2021 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. The developments include:

- Reassessment of Stakeholder Engagement, Advisory Groups
- PCAOB Scholars for the 2021-2022 Academic Year
- Report on Inspections of Audits of Broker-Dealers
- Joint Statement by Board Members Gorshorn Jurata and Zietsman
- Forums on Auditing in the Small Business Environment and on Auditing Broker-Dealers
- Adoption of Rule Providing Framework for HFCAA Determinations
- Request for Comment Regarding Lead Auditor's Use of Other Auditors
- Staff Guidance on Audit Evidence
- PCAOB Conference on Auditing and Capital Markets
- Settled Disciplinary Orders

Reassessment of Stakeholder Engagement, Advisory Groups

On June 22, 2021, PCAOB Acting Chairperson Duane DesParte announced that he had directed staff to reassess the organization's stakeholder engagement efforts, including revisiting for Board consideration the structure and membership of its advisory groups.

Given this reassessment, the nominations process for membership in the recently announced Standards Advisory Group has been paused. Submitted nominations will be considered once the reevaluation of the framework and composition of advisory groups is completed, and additional nominations may be solicited at that time.

PCAOB Scholars for the 2021-2022 Academic Year

On July 19, 2021, the PCAOB announced that 253 students from U.S. colleges and universities were selected to receive a \$10,000 scholarship for the 2021-2022 academic year.

The Sarbanes-Oxley Act of 2002 provides that funds generated from the collection of PCAOB monetary penalties must be used to fund a merit scholarship program for students in accredited accounting degree programs. The PCAOB Scholars Program was created to identify eligible students and to award funds through the students' educational institutions.

A description of the program, including information on the nomination process, the selection of nominating institutions, and other details can be found on the PCAOB Scholars Program page at https://pcaobus.org//About/Pages/Academic_Scholarship.aspx.

All participating institutions, along with the named PCAOB Scholars, are available at <https://pcaobus.org/news-events/news-releases/news-release-detail/253-students-named-pcaob-scholars-for-the-2021-2022-academic-year>.

Report on Inspections of Audits of Broker-Dealers

On August 19, 2021, the PCAOB released the 2020 “Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers.” The report provides (1) information about the 2020 inspections approach, (2) a summary of 2020 inspections observations, and (3) “good practices,” which include brief scenarios and possible procedures that may be effective to address those scenarios.

The annual report is available at <https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/inspections/documents/2020-broker-dealer-annual-report.pdf>.

In addition to the annual report, the PCAOB released a separate publication, “Supplementary Information Related to Audits of Brokers and Dealers.” This supplement presents comparative data about selected firms and engagements, as well the results of PCAOB inspections, over multi-year periods. The supplement is available at <https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/inspections/documents/2020-broker-dealer-supplementary-information.pdf>.

Joint Statement by Board Members Gorshorn Jurata and Zietsman

On August 23, 2021, Board Members Gorshorn Jurata and Zietsman issued a joint statement announcing their intentions to resign from the PCAOB by October 1, 2021. They have since left the Board.

Forums on Auditing in the Small Business Environment and on Auditing Broker-Dealers:

On September 20, 2021, the PCAOB announced information regarding its 2021 Forum for Auditors of Small Businesses and Broker-Dealers. This year’s forum will be pre-recorded, and the content will be accessible via the PCAOB website beginning Wednesday, October 20, 2021.

The recordings will include presentations by PCAOB staff from the Office of the Chief Auditor, the Division of Registration and Inspections, and the Division of Enforcement and Investigations. Additionally, there will be a presentation from staff of the Financial Industry Regulatory Authority.

Adoption of Rule Providing Framework for HFCAA Determinations:

On September 22, 2021, the PCAOB adopted a new rule related to the PCAOB’s responsibilities under the Holding Foreign Companies Accountable Act (HFCAA). The rule provides a framework for the PCAOB to use when determining, as contemplated under the HFCAA, whether the Board is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. The rule establishes:

- The manner of the Board’s determinations;
- The factors the Board will evaluate and the documents and information it will consider when assessing whether a determination is warranted;
- The form, public availability, effective date, and duration of such determinations; and
- The process by which the Board will reaffirm, modify, or vacate its determinations.

The new rule is subject to approval by the U.S. Securities and Exchange Commission (SEC). If approved by the SEC, the rule will immediately become effective, and the PCAOB will promptly make any determinations under the rule that are appropriate.

Further background and relevant documents are available in Rulemaking Docket No. 048 at <https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-048-proposed-rule-governing-board-determinations-under-holding-foreign-companies-accountable-act>.

Request for Comment Regarding Lead Auditor’s Use of Other Auditors

On September 28, 2021, the PCAOB issued a second supplemental request for comment on its proposal to strengthen requirements that apply to audits involving multiple audit firms.

The PCAOB sought additional comment on that proposal in September 2017. This request for comment seeks further input on certain revisions to the initial proposal that are designed to improve the approach. The comment period runs through November 30, 2021.

More information is available on the Supervision of Audits Involving Other Auditors project page at <https://pcaobus.org/oversight/standards/research-standard-setting-projects/supervision-of-audits-involving-other-auditors>.

Staff Guidance on Audit Evidence

On October 7, 2021, the PCAOB released staff guidance on considerations regarding the relevance and reliability of information from external sources that the auditor plans to use as audit evidence. The guidance also addresses the relationship between the quality and quantity of audit evidence.

The guidance is available at https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/standards/documents/evaluating-relevance-and-reliability-of-audit-evidence-obtained-from-external-sources.pdf?sfvrsn=48b638b_6.

More information on the Audit Evidence project is available at <https://pcaobus.org/oversight/standards/research-standard-setting-projects/auditor-evidence>.

PCAOB Conference on Auditing and Capital Markets

The PCAOB has announced the agenda for its 2021 Conference on Auditing and Capital Markets.

The agenda is available on the PCAOB website at <https://pcaobus.org/news-events/events/conference-auditing-capital-markets/2021-conference-on-auditing-and-capital-markets-and-call-for-papers>.

Settled Disciplinary Orders

The PCAOB posted several settled disciplinary orders.

Settled disciplinary orders are available at

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

AICPA Auditing Standards Board Update

By Greg Jenkins

Auburn University and Auditing Standards Board Member

I began my term as a member of the ASB in May 2021 after Audrey Gramling completed her three-year term. I want to extend a special thank you to Audrey for her service and dedication to the auditing profession and to the ideal that auditing research should inform the standards setting process. She was a highly respected member of the Board and represented the academic community very effectively during her tenure. Thank you Audrey!

More information is available about the other new and continuing members of the Board on the [website](#).

Since Audrey's last report in May 2021, the ASB has continued to meet virtually. This report highlights one newly issued standard and the status of various ASB projects.

Newly Issued Risk Assessment Standard

In August, the ASB voted to issue *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (SAS No. 145)* which is effective for audits of financial statements for periods ending on or after December 15, 2023. The standard seeks to clarify and enhance requirements and guidance related to the identification and assessment of risks of material misstatement. There are several revised and new requirements including:

- A new requirement to separately assess inherent risk and control risk,
- A new requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk,
- A new "stand-back" requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures,
- A revised definition of *significant risk*,
- New guidance on scalability of the standard, and
- New guidance on maintaining professional skepticism.

Much more information is available about the [new standard](#) on the AICPA's website. In addition, there will be a one-hour webcast entitled [Preparing for the New Risk Assessment Standard](#) for those interested in learning more. The webcast is free for AICPA members and is available for a nominal fee for others.

Ongoing ASB Projects

The ASB has several ongoing projects related to group audits, quality management, the audits of less complex entities, and inquiries of the predecessor auditor regarding fraud and noncompliance with laws and regulations (NOCLAR). In addition, there are a number of projects at the International Auditing and

Assurance Standards Board (IAASB) that the ASB is following closely, including those related to group audits, audits of less complex entities, fraud and going concern. You can find more details about these matters by visiting [ASB Meeting Materials and Highlights](#) page on the AICPA's website.

- Group audits – The ASB's Group Audits task force continues working on possible revisions to extant AU-C 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* involving various matters including requirements related to a group auditor making reference to the component auditor in the auditor's report and to a group auditor assuming responsibility for the work of a component auditor.
- Quality management – The ASB's Quality Management task force has devoted considerable time to reviewing and analyzing the many comment letters received and holding roundtable discussions on exposure drafts of Proposed Statement on Quality Management Standards: *A Firm's System of Quality Management (SQMS 1)*, Proposed Statement on Quality Management Standards: *Engagement Quality Reviews (SQMS 2)*, and Proposed Statement on Auditing Standards: *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*. The task force is continuing its work on this important area.
- Audits of less complex entities (LCEs) – The ASB's Audits of LCEs task force has been reviewing the IAASB's *Audits of Less Complex Entities* exposure draft, analyzing how requirements in the draft compare to those in the "full-blown" International Standards on Auditing, and surveying audit practitioners about the audits of LCEs.
- Inquiries of the predecessor auditor regarding fraud and NOCLAR – The NOCLAR task force received a number of comment letters related to the proposed changes to *Terms of Engagement (AU-C 210)*. The proposed changes include a new requirement that a successor auditor should request management of the potential client to authorize the predecessor auditor to respond fully to the successor's inquiries including those related to fraud and matters involving noncompliance or suspected noncompliance with laws and regulations. Given the potential implications that the changes may have for one's compliance with the *AICPA's Code of Professional Conduct* the ASB is working closely with the Professional Ethics Executive Committee on this project.

Current Issues in Auditing

By Denise Dickins and Keith Urtel

East Carolina University and University of Notre Dame

We believe that collaboration between the academy and practice is mutually beneficial. To have impact, research questions must be relevant to practice and investigations must be grounded in reality. Engaging with practitioners on research design can improve the validity, reliability, and generalizability of auditing research, and high-quality auditing research can improve practitioners' and regulators' decision-making.

Special Issue on Environmental, Social, and Governance (ESG) Disclosures and Assurance

The mission of *CIIA* is to advance the dialogue between academics and practitioners on current issues facing the auditing practice community. "Auditing practice" broadly includes practice-related issues in external auditing, internal auditing, government auditing, IT auditing, assurance services, and related fields.

To further this mission and increase the relevance of academic research to practice, we are seeking submissions of short, well-written papers from academics, practitioners, and regulators that broadly address issues associated with Environmental, Social, and Governance (ESG) disclosures and assurance. To help address the relevancy, reliability, and generalizability of studies, we highly recommend engaging both informally (e.g., conversations and courtesy reads) and formally (e.g., as participants and co-authors) with practitioners.

Possible areas of investigation include, but are not limited to:

- Experimental investigations of the impact of ESG disclosures and assurance on investors', creditors', and jurors' decisions
- Experimental investigations of the impact of ESG disclosures and assurance on investors', creditors', and jurors' decisions,
- Archival investigations of the types of and extent of assurance on ESG disclosures in other countries, the assessment of the risk of material misstatement is the same as the assessment of inherent risk,
- Survey investigations of auditors, managers, and investors about the expectations of future ESG disclosures and the extent of assurance,
- Structured interviews about the challenge of ESG disclosure assurance (e.g., auditors skills, liability, appropriate frameworks and standards, or audit fees).

Accepted submissions are tentatively scheduled for publication in the Spring 2023 issue. Papers to be considered for this special forum should follow the *CIIA* editorial policy and be submitted using the AAA's manuscript management system (<https://aaahq.org/Research/Journals/Section-Journal-Home-Pages/Current-Issues-in-Auditing>), and by selecting the corresponding special forum article type. Please also provide a cover letter indicating your submission is for the special issue. Submission fees can be

paid at: <https://aaahq.org/Research/Journals/Information-for-Authors/Online-Payment/productcd/ISSUBM>.

The deadline for submission is March 31, 2022 and early submission is encouraged.

In addition to the Special ESG Issue, 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: <https://meridian.allenpress.com/cia/publish-ahead-of-print>.

Have you Seen...?

**Candice Hux, Northern Illinois University
Jenna J. Burke, University of Colorado Denver
Jenny McCallen, University of Georgia**

'The Data Analytics Journey: Interactions Among Auditors, Managers, Regulation and Technology' by Ashley Austin, Tina Carpenter, Margaret Christ, and Christy Nelson. *Contemporary Accounting Research* 38(3): 1888-1924.

As the data analytics transformation continues to alter the business landscape, this study examines how auditors, managers, and regulators contribute to and are affected by this transformation. The authors interview dyadic pairs of company managers and their audit partners to understand the diffusion of data analytics within the financial reporting environment. Notably, managers and auditors imply they are on the data analytics journey together, and are learning from one another. However, a lack of guidance around data analytics has created variability in the extent of data analytic use; and the introduction of data analytic techniques and expanded access to client data has created an expectations gap between auditors and clients in how the tools and data should be utilized. The authors also interview regulators, who express concerns that auditors' use of data analytics to provide clients with deeper insights into their businesses may blur the lines between auditing and consulting, potentially leading to renewed concerns over audit independence and impaired audit quality. This paper provides a robust look into the data analytics transformation and highlights how advances in technology have changed and will continue to shift the audit environment.

'Income Smoothing and Audit Fees' by Hsihui Chang, Jennifer Ho, Zenghui Liu, and Bo Ouyang. *Advances in Accounting* 54: 100547.

This study examines whether managers' use of income smoothing in the financial statements influences the auditors' pricing of client engagements. Drawing on prior literature, the authors propose that income smoothing could result in higher audit fees if auditors perceive such behavior as a mechanism to manage earnings and conceal information; or it could result in lower audit fees if auditors perceive smooth income trends as lower client business risk. Using data from a sample of U.S. companies, they find that the degree of income smoothing is negatively associated with audit fees, suggesting that auditors perceive companies with smoother earnings as less risky, and therefore charge lower audit fees. They further differentiate between innate and discretionary earnings smoothness, finding that regardless of the source of smoothed earnings, auditors offer more favorable pricing terms to clients with a higher degree of income smoothing. This study provides new insights about how income smoothing can affect audit fees.

'How Do Team Workloads and Team Staffing Affect the Audit? Archival Evidence from U.S. Audits' by Brant Christensen, Nathan Newton, and Michael Wilkins. 2021. *Accounting, Organizations, and Society* 92: 101225.

Using proprietary U.S. data from a global accounting firm, this study documents the impact of audit team workloads and staffing continuity on audit outcomes. First, consistent with employee burnout, findings demonstrate that heavier team workloads during year-end fieldwork are associated with lower

audit quality, particularly when team members have lower performance ratings or total workloads that exceed 60 hours per week. Second, consistent with an incremental distraction effect, findings suggest audit quality on the primary client and on other concurrent clients suffers from a heavy team workload. Third, greater year-over-year continuity in team staffing is associated with improved audit quality, efficiency, and profitability, particularly when returning team members have higher performance ratings or work in smaller audit offices. These effects of team workload and continuity on audit quality are driven by audit staff and seniors. Combined, this study provides new evidence on audit team characteristics important to research and practice.

'Root Cause Analysis and Its Effect on Auditors' Judgments and Decisions in an Integrated Audit' by Todd DeZoort, Marcus Doxey, and Troy Pollard. 2021. *Contemporary Accounting Research* 38(2): 1204-1230.

Auditors' evaluations of identified misstatements often fail to identify underlying internal control deficiencies that contributed to the misstatement. This study investigates the use of root cause analysis (RCA) as a means to improve auditors' evaluation of misstatements in an integrated audit setting. Using a 4x2 experiment, the authors examine four different RCA approaches (No RCA, unstructured RCA, structured "5 whys" RCA, structured "fishbone" RCA) and measure auditor cognitive style. Results show that auditors using a RCA approach are more likely to link the misstatement to an underlying internal control issue and perceive the control issue to be more severe. Further, the assessed relevance and severity of identified control deficiencies mediates the effect of RCA on auditors' assessments of misstatement materiality. The paper also finds that structured RCAs are more effective than unstructured RCAs, however, the fit between the RCA approach and the auditors' cognitive style are important for successful use of RCA. The study supports the use of RCA as a means to encourage deeper evaluation of audit findings and provides evidence that matching cognitive style to audit approaches is important for high quality judgments.

'Improving Complex Audit Judgments: A Framework and Evidence' by Emily Griffith, Kathryn Kadous, and Donald Young. 2021. *Contemporary Accounting Research* 38(3): 2071-2104.

Griffith, Kadous and Young develop a framework based on dual-process theory to help understand complex audit judgments. They define three levels within the framework that necessitate successful high-quality audit judgments: (1) auditors must have the underlying knowledge and skills needed for the task; (2) they must be able to recognize that the task requires deeper analytical processing; and (3) they must possess the cognitive capacity necessary to engage and sustain analytical processing to complete the task. They provide a detailed discussion of the framework, including conditions necessary at each level, the role of individual auditor characteristics, and considerations when designing successful interventions. The paper then examines the second level of the framework by experimentally investigating how the need for cognition (NFC) influences auditors' ability to recognize when analytical processing is needed. Using a 2x2 design, they manipulate the auditors' goal ('support the client' or 'make an accurate conclusion') and measure participants' NFC. They find that, consistent with their expectation, NFC is an important factor in auditors successfully recognizing the need to engage in analytical processing and that priming an accuracy goal can improve reduce heuristic processing and improve judgment quality for auditors lower in NFC.

'Gender Discrimination? Evidence from the Belgian Public Accounting Profession.' by Kris Hardies, Clive Lennox, and Bing Li. 2021. *Contemporary Accounting Research* 38(3): 1509-1541.

This study examines the gender pay gap and gender discrimination for Belgian audit partners. Using a sample of 656 unique audit partners, the authors compare compensation data as well as fees generated by male and female partners and their work assignments. Compensation data reveals that female partners receive significantly lower compensation than male partners (average of 140,916 euros for females and 232,142 euros for males), which supports the existence of a gender pay gap. The study then focuses on testing whether gender discrimination or variation in productivity levels explain this pay gap. Findings show that female partners generate larger fee premiums, but are less likely to be assigned to prestigious clients. Uniquely, cross-sectional analyses show that the fee premiums generated by female partners and the lower likelihood of assignment to prestigious clients are larger in male-dominated offices. These findings suggest that female partners are paid less despite being more productive than male partners, and that female partners face gender discrimination in audit offices that are dominated by male partners.

“Improving Auditors’ Consideration of Evidence Contradicting Management’s Estimate Assumptions.”
By Ashley Austin, Jacqueline Hammersley and Michael Ricci. *Contemporary Accounting Research* 37 (2): 696-716.

This study examines two interventions (a balanced focus vs. supporting focus of documenting evidence and the strength of accuracy goals) that could reduce auditors’ bias in evaluating management’s estimates. Using motivated reasoning theory, the authors predict that a balanced documentation focus will improve auditors’ assessment of biased estimates, and that the effect will be larger when auditors have weaker relative to stronger accuracy goals. They find that a balanced documentation focus results in auditors documenting more inferences that contradict management’s estimate assumptions, but find no increase in their overall documentation of contradicting facts. This suggests a balanced focus affects how auditors interpret contradicting evidence rather than simply increasing their documentation. Importantly, the effects of reduced dismissiveness also improve auditors’ evaluations of a biased estimate and subsequent actions. The authors do not find that the strength of the auditors’ accuracy goal moderates the effect of a balanced focus. The findings provide new insights to the documentation literature, contribute to motivated reasoning theory, and offer a suggestion for improving audit quality.

“Do Client Bankruptcies Preceded by Clean Audit Opinions Damage Auditor Reputation?” By Nathan Berglund. *Contemporary Accounting Research* 37 (3): 1914-1951.

This study examines the idea that a false negative (type 2 error) going concern error has a detrimental impact on the auditor. Surprisingly, the author finds little negative consequences to the local office of the auditor following an audit client going bankrupt with a clean going concern report: future audits fees do not fall, the office is not more likely to be dismissed, and the office is not any less likely to gain new clients. Considering the market reaction, the author does find a modest negative incremental response for clients of an office that makes a type 2 error. However, those effects are isolated to the financial crisis period (2008-2010). Finally, the study considers whether regulators and users of financial information should be concerned about type 2 errors. The author finds an audit office with a type 2 error is positively associated with future accounting restatements, suggesting that despite modest consequences to the local office signing off on a type 2 error, there is reason to be concerned that these errors may reflect lower audit quality.

Church, B., Dai, N., Kuang, X., and X. Liu. 2020. “The Role of Auditor Narcissism in Auditor-Client Negotiations: Evidence from China.” By Bryan Church, Narisa Dai, Xi Kuang and Xuejiao Liu. *Contemporary Accounting Research* 37 (3): 1756-1787.

This study takes a multi-pronged approach to consider the impact of auditor narcissism in negotiations with audit clients in China. First, using the archival method, the authors document an association between auditor narcissism and both longer audit delay and smaller discretionary accruals. Next, in an experiment, the authors find that auditor narcissism is associated with negotiations that take longer to resolve or reach an impasse, as well as lower reported asset values after negotiation. Finally, the authors consider a qualitative approach, incorporating field interviews with practicing audit partners, which corroborate the idea that narcissistic auditors may slow negotiations and resolution of issues down, but also may be more likely to stand their ground when clients make unreasonable demands or are overly aggressive.

“A Multi-method Analysis of the PCAOB’s Relationship with the Audit Profession.” By Matthew Ege, W. Robert Knechel, Phillip Lamoreaux and Eldar Maksymov. *Accounting, Organizations and Society* 84: In-Press.

This study investigates the interactions between large audit firms and the PCAOB during the initial years of PCAOB regulation. Responsive regulation (RR) theory suggests that a mismatch in views on regulation

between auditors and the PCAOB could lead to the PCAOB perceiving the firms' public disagreement as unwillingness to comply, and responding by penalizing firms. Consistent with theory, the results reveal that a negative tone in audit firms' inspection response letters is positively associated with future inspection findings. To further investigate the interactions and triangulate these archival findings, the authors interview eight PCAOB inspectors and six audit partners involved in these early inspection exchanges. They find that the PCAOB viewed public disagreement as indicators of noncompliance, incorporated public disagreement into subsequent inspections, and escalated penalties for noncompliance. As a result, this led to a culture of resentment towards the PCAOB at the firms. These findings contribute to the regulator literature and theory by providing new insights about the regulator-regulatee interactions and offering suggestions to improve the relationship between the PCAOB and audit firms.

“Audit Quality Indicators: Perspectives from non-Big 4 Audit Firms and Small Company Audit Committees.” By M. Kathleen Harris and L. Tyler Williams. *Advances in Accounting* 50: In-Press.

Using non-Big 4 audit firms' comment letter responses to the PCAOB's Concept Release on 28 proposed audit quality indicators (AQIs), this study finds that several Non-Big 4 firms express concern about the infeasibility, misinterpretation, and potential for unintended consequences of many proposed AQIs. Specifically, only three AQIs are perceived as feasible: (1) staffing leverage, (2) manager and staff workloads, and (3) audit hours and risk area. To gather further evidence from a different constituent group, the authors narrow the list to 11 potential AQI measures based on prior literature and survey small company audit committee members about these measures. They find audit committees primarily focus on five of the proposed measures: (1) experience of audit personnel, (2) auditor personnel with specialized skills and knowledge, (3) the firm's timely reporting of internal control issues, (4) audit fees, and (5) PCAOB/SEC enforcement proceedings against an audit firm. The audit committee members also perceive the former three indicators to possess the highest level of effectiveness in the evaluation of audit quality. These findings provide important insights for audit regulation regarding the perceived effectiveness of various proposed AQIs from two constituent groups and motivate future research on AQIs.

“When Are Audit Firms Sued for Financial Reporting Failures and What Are the Lawsuit Outcomes?” By Clive Lennox and Bing Li. *Contemporary Accounting Research* 37 (3):1370-1399.

The authors consider the circumstances surrounding lawsuits involving audit firms, first considering the likelihood of a lawsuit, then considering the outcome of lawsuits involving auditors. Interestingly, they find an insignificant relationship between an accounting restatement and a lawsuit involving the auditor. However, certain types of accounting deficiencies show a significant association with lawsuits. More specifically, fictitious revenues, fictitious assets or reductions of expenses, and overvaluing (undervaluing) existing assets (revenues) are positively associated with the auditor being named in a lawsuit. Auditor type also matters, as the Big 4 audit firms are less likely to be sued, but consistent with the deep pockets' hypothesis, when they are sued they pay out more.

Have You Seen These Educational Resources?

Chad Simon
Utah State University

“Something Phish-y is Going On Here: A Teaching Case on Business Email Compromise.” By Kathleen Bakarich and Devon Baranek. *Current Issues in Auditing* 14 (1): A1-A9.

As the title suggests, email scams are not just affecting individuals. This case study discusses details about a company, Ubiquiti Networks, that fell victim to an email scam that cost the company millions. The scam was carried out by fraudsters who purported that the company was entering into a major acquisition and led a Ubiquiti employee to make over a dozen transfers to accounts across the globe. The discussion also notes the FBI’s involvement in following up on the scam and notes the SEC’s reaction to companies falling prey to these scams.

“Channel-Stuffing Reinvented: Earnings Management in Toshiba’s Personal Computers Division.” By Mahendra Gujarathi and Amitabh Dugar. *Issues in Accounting Education* 35 (3): 25-38.

This case describes a multi-year fraud committed by the Japanese company Toshiba. The discussion highlights the pressures placed on company personnel to meet improvement benchmarks as well as some of the mechanics involved in the accounting that was used to execute the fraud (e.g., examples of journal entries are included that can facilitate students’ ability to better comprehend how the fraud was carried out). The authors also include discussion of the unique nature of the channel-stuffing that took place, quotes from company management, and a discussion of the company’s external auditor.

“Challenges when Auditing Cryptocurrencies.” By Nishani Vincent and Anne M. Wilkins. *Current Issues in Auditing* 14(1): A46-A58.

This article raises attention to relevant risks and discussion surrounding the issue of auditing firms that engage in transactions using cryptocurrencies. The authors package much of the discussion around familiar management assertions and relate those assertions to potential risks, audit procedures, and additional questions to consider, including questions to think about in this unique and emerging area of business. Given this evolving issue, this topic could effectively engage students and lead to fruitful class discussions and critical thinking exercises.