



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Report of the President

Mark Beasley



I am honored to serve as the Auditing Section's President for 2005–2006. Thank you for the wonderful opportunity to work with all of the outstanding members of our Section. We have much to be proud of, and I want to do my part in maintaining and enhancing the many, many

benefits of Auditing Section membership for you.

Carrying the Torch

The outstanding leadership last year of Linda McDaniel during her Presidency and Jean Bedard as Past President has provided a tremendous foundation for the Section. It is now my challenge to carry the torch handed to me into new and exciting opportunities for the Section. I am grateful for Linda's and Jean's leadership in setting a clear direction of how our Section can contribute through our research, education, and service to the vastly changing auditing and assurance profession. I am also very appreciative of the dedicated service of Jeff Cohen as Treasurer and Karen Pincus as Historian. We were sad to see them rotate off the Executive Committee in August and want to acknowledge our thanks for the extensive time and effort required for their fantastic service to the

INSIDE

Features

[Auditing Section Officer Election](#)

[2006 Auditing Section Midyear Meeting](#)

[2006 Auditing Doctoral Consortium Program](#)

[What Accounting Students Need to Know About Fraud—Part I](#)

[Performing a Literature Synthesis Project for the PCAOB](#)

[Using a Simple Word Problem to Develop Accounting and Auditing Skills](#)

[PCAOB Standards-Setting Update](#)

Section. Fortunately, their responsibilities have been handed over to two other outstanding members — Kathryn Kadous and Arnie Wright, who are now serving as Treasurer and Historian, respectively. As I transitioned into the President's role and as Linda rotated into the Past President role, we were thrilled to welcome Ray Whittington onto the Executive Committee team as Vice President-Academic.



Linda McDaniel presents Jean Bedard with an award for her outstanding service to the Auditing Section as Past President.

The Executive Committee would like to hear from you — please send your thoughts and ideas of how we can take the Section to new levels. Here's an overview of who is serving as your Executive Committee for 2005–2006 and how you can email us:

President	Mark Beasley, NC State (mark_beasley@ncsu.edu)
Past President	Linda McDaniel, Kentucky (tarcat@uky.edu)
Vice President-Academic	Ray Whittington, DePaul (rwhittin@depaul.edu)
Vice President-Practice	Scott Showalter, KPMG (dsshowalter@kpmg.com)
Secretary	Kay Tatum, Miami (ktatum@miami.edu)

[Have you seen...?](#)

[Have You Seen These
Instructional
Resources...?](#)

Call for Papers

[Special Edition, *Issues in
Accounting Education*](#)

[11th Annual Ethics
Research Symposium](#)

[2006 International
Symposium on Audit
Research](#)

[17th Symposium on
Auditing Research](#)

[*Managerial Auditing
Journal*](#)

Announcements

[Auditing Section
CPE Proposals](#)

[Auditing Section
Committee Volunteers](#)

[2006 AAA Annual
Meeting—Auditing Section
Papers & Volunteers](#)

[2006 AAA Innovation in
Accounting Education](#)

Treasurer Katherine Kadous, Emory
(kkadous@emory.edu)

Historian Arnie Wright, Boston
College (wrightar@bc.edu)

2005 Annual Meeting

I hope many of you were able to participate in the 2005 AAA Annual Meeting held in San Francisco, August 7–10, 2005. The unbelievable behind-the-scenes work and leadership of two of our own members — Joe Carcello who served as the Annual Meeting Planning Coordinator and Jane Mutchler who served as AAA President — produced a record-breaking attendance for AAA Annual Meetings. Joe's and Jane's incredible detailed work at planning the entire event included a first-time ever Sunday evening dinner with nationally recognized speakers, Senator Michael Oxley and PCAOB Board Member Bill Gradison, and three following days of outstanding plenary, concurrent, and luncheon sessions. Great job, Joe and Jane.



Linda McDaniel presents Bill Messier with an award for his outstanding service to the Auditing Section as Editor of *Auditing: A Journal of Practice & Theory*.

Due to the outstanding work of Bryan Church, the Auditing Section had a record number of concurrent

The IIA—RF-Barrett
Dissertation Grant

Deloitte/University of
Kansas Auditing
Symposium XIX

Symposium on
Information Systems
Assurance

PDF Version of
Newsletter
(for printing)

Spring 2006 Issue Deadline

The deadline for material to be included in the Spring 2006 issue of *The Auditor's Report* is January 30, 2006. The preferred format is a Word file attached to an e-mail message.

We also are open to any proposals for materials that anyone would like to submit. Please send all material and proposals to the Editor at the address below by January 30, 2006 to ensure timely publication of the issue:

James L. Bierstaker, Editor
Department of Accountancy
College of Commerce &
Finance

Villanova University
Villanova, PA 19085-1678
Phone: (610) 519-4340
Fax: (610) 519-5204

sessions featuring auditing and assurance research, education, and emerging issues panels. Serving as our Section's Annual Meeting Coordinator, Bryan secured 21 Auditing Section concurrent sessions where 63 auditing and assurance-related papers (a record number!) were presented and discussed. Attendees at the Auditing Section Luncheon were fortunate to hear the thought-provoking comments of Scott Taub, SEC Deputy Chief Accountant, who focused on challenges facing the auditing profession as changes are made to accounting standards, such as fair value accounting, in the U.S. and internationally. And, the Section was proud to have six papers included in the first-ever New Scholars Forum, 19 papers in the Research Forum, and one panel session on the "State of the Art in Auditing Research" which included Mark DeFond, Jere Francis, Bill Kinney, Bill Messier, and Mark Nelson as panelists. Bryan was assisted by Kathryn Kadous and team of 125 reviewers from across our Section. How great to see the involvement of so many of you who serve the Section as reviewers, presenters, discussants, panelists, and moderators. The Auditing Section's strength is in the number of members who unselfishly serve in so many ways. Thanks to Bryan and many of you who helped make the 2005 Annual Meeting a huge success.

Connecting Research with PCAOB Standards-Setting Initiatives

Because of the excellent leadership of the Section's recent past-presidents — Linda McDaniel, Jean Bedard, and Joe Carcello, the Section has been working over the last several months to help synthesize findings from auditing and assurance research related to PCAOB ongoing standards-setting initiatives. The PCAOB Staff has an interest in understanding research implications related to key topics affecting the PCAOB's standards-setting agenda, and the Auditing Section is working to help connect research to those directly involved in the PCAOB's initiatives.

Email:
james.bierstaker@villanova.edu

The address of the Auditing
Section's Home Page on the
World Wide Web is:
<http://aaahq.org/audit/index.htm>

During the summer and fall, our Section's Research Committee (led by Jay Rich) and our Standards Committee (led last year by Roger Martin and this year by Bob Allen) is coordinating two separate research teams composed of Section members who are preparing research syntheses related to two PCAOB project areas: Risk Assessment and Fair Values (please see the enclosed article written by Dana Hermanson overviewing the process followed by the Risk Assessment project team).

One of my initiatives over the next year is to strengthen the engagement of our Section in activities shaping policies and regulation. In August 2005, the Section announced its first-ever Call for Participants in a Research Program Related to PCAOB Standards-Setting Projects. I am thrilled that almost 40 Section members submitted their Notice of Interest by the September 15 deadline to participate on research teams related to these seven PCAOB Standards-setting projects:

- Audit Confirmations
- Audit Firm Quality Control
- Audit Reporting Model
- Auditing Related Party Transactions
- Communications with Audit Committees
- Engagement Quality Review
- Financial Fraud

The Executive Committee is currently working with the Research and Auditing Standards Committees to create the research syntheses project teams, which will be working diligently through the fall and winter to complete syntheses for submission to the PCAOB staff by spring 2006. I am very excited that the Section has the opportunity to connect research to those involved in PCAOB standards-setting activities, and during my term I want to continue strengthening the contribution of our Section to those serving at the PCAOB level.

National and International Leadership by Section

Members

Consistent with the goal of strengthening the interaction between members of the Auditing Section and the PCAOB, another of my goals is to help highlight the many existing leadership contributions of several members of our Section to numerous other national and international organizations that play major roles in leading and influencing the audit and assurance profession. It is thrilling to see so many of our fellow members directly involved in numerous national and international issues affecting the

important role of the accounting academic community in national and international efforts affecting our profession.

Because many of you may not be aware of how your fellow Section members are serving at national and international levels, here's a quick summary of several individuals who currently serve or recently served at national and international levels with these organizations:

AICPA Auditing Standards Board (ASB)

- **Bill Messier**—Serving as the Academic Member on the ASB and selected task forces
- **Lyn Graham**—Serving on ASB and its "Risk Assessments" Task Force
- **Brian Ballou**—Serving on the ASB's "Risk Assessments" Task Force

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- **Larry Rittenberg**—Serving as COSO Chair
- **Mark Beasley**—Serving as the AAA Representative on the COSO Board
- **Joe Carcello**—Serving on COSO's Internal Control for Small Businesses Project Task Force
- **Doug Prawitt**—Serving on COSO's Internal Control for Small Businesses Project Task Force

Government Accountability Office (GAO)

- **Abe Akresh**—Serving at the GAO

International Auditing and Assurance Standards

Board (IAASB)

- **Roger Simnett**—Serving as Member of the IAASB
- **Bill Kinney**—Serving on the AICPA's International Auditing Standards Subcommittee which interacts with the IAASB
- **Bill Messier**—Serving on the AICPA's International Auditing Standards Subcommittee which interacts with the IAASB

PCAOB

- **Doug Carmichael**—Serving as the PCAOB's Chief Auditor
- **Gary Holstrum**—Serving as the PCAOB's Associate Chief Auditor and Director of Research
- **Kay Tatum**—Serving on the PCAOB's Standing Advisory Group (SAG)
- **Zabihollah (Zabi) Rezaee** — Serving on the PCAOB's Standing Advisory Group (SAG)

Securities and Exchange Commission (SEC)

- **Andy Bailey**—Serving as Deputy Chief Accountant in the Office of Chief Accountant
- **Mark Taylor**—Serving as an SEC Academic Fellow
- **Audrey Gramling**—Just completed a one-year SEC Academic Fellowship

In addition to these, numerous others serve in key activities of other professional organizations such as The Institute of Internal Auditors and ISACA, among numerous others—please let us know how you are serving. In addition, the Section is fortunate to have representatives from these Organizations serving the Section as members of our Committees, including the Practice Advisory Council and the Executive Committee.

It is exciting to see how the auditing academic profession is playing critical leadership roles in numerous national and international initiatives. I believe that our entire Section's membership can help

support the efforts of these who are serving by sharing insights we gain through our research and teaching that might have important implications for standards-setters and regulators. I am convinced that what we all do related to research and education can lead to significant insights for those affecting national and international policies and regulations related to auditing and assurance. Let's help those serving in these and other key roles make that connection by sharing your insights from relevant topic-specific research and education conducted by you with them. That way, these individuals can be better informed of ways audit and assurance research and education affect key policy issues affecting the global profession.

Special SOX Edition of *Issues in Accounting Education*

The AAA is planning to issue a special edition of *Issues in Accounting Education*, "The Impact of Sarbanes-Oxley and Recent Accounting Scandals on Accounting Education." Many of you may be interested in submitting papers and other materials for consideration for this special issue. Submissions must address some educational aspect of Sarbanes-Oxley or recent accounting scandals. And, the AAA is seeking reviewers from the Auditing Section to assist in processing requested manuscripts. One of our members, Dana Hermanson, is serving as Guest Editor for this special edition. Please see additional announcements contained in this edition of *The Auditor's Report*.

2006 Mid-Year Auditing Conference

Please mark your calendars for January 12–14, 2006 for the 12th Annual Mid-Year Auditing Conference to be held at the Hilton Universal Hotel at Universal Studios in Los Angeles, California. Through the outstanding work of our Mid-Year Meeting Planning Co-ordinators—Mark DeFond and Todd DeZoort—we are planning an incredibly rich agenda of plenary and concurrent sessions. This year is especially exciting as

we will be meeting jointly with the AAA's International Section and will host keynote, plenary, and concurrent sessions dealing with a wide variety of contemporary topics related to audit, attestation and assurance practices, education, and research with an emphasis on international issues.

The format will be similar to prior Auditing Mid-Year Conferences, but the joint meeting allows us to host combined plenary sessions focused on international audit and assurance issues. While our section will maintain the same number of concurrent research and education sessions, our members also will be able to attend concurrent sessions hosted by the International Section.

Our first plenary session will feature three individuals serving in key international standards setting roles—John Kellas (IAASB Chair), David Brown (Member, International Public Interest Oversight Board and former Chair of the Ontario Securities Commission), and Jim Sylph (IFAC Technical Director). The Saturday plenary session will feature Greg Garrison, lead partner for PricewaterhouseCoopers, LLP U.S. Assurance Practice, who will complement the Hollywood setting for our Conference by highlighting his role in serving as the engagement partner on the Academy Awards balloting process engagement. You'll enjoy the hotel's location, which is directly across the street from Universal Studios and Universal's CityWalk-Hollywood, which is filled with restaurants, shops, and theatres in the heart of Hollywood. Please see the Mid-Year Conference Call for Registration contained in this issue and posted at the Section's web site for further details. The Auditing Section is grateful for the generous support provided by the KPMG Foundation for our Midyear Conference.

Auditing Section Doctoral Consortium

We are also excited to be hosting our 7th Annual

Auditing Doctoral Consortium on Thursday, January 12, 2006, preceding the Mid-Year Conference Meeting. Karl Hackenbrack, 2006 Doctorial Consortium Chair, has assembled an impressive line-up of speakers and panelists for this all-day event for current doctoral students. The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas and thoughts from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students interested in auditing, established auditing researchers, and journal editors.

Because of the generous support from the KPMG Foundation, 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, and there is no limit to the number of students who may attend from any one university. However, there is a limit on the total number of students who can attend the Consortium, and applicants will be accepted on a first-come basis with repeat attendance on a space available basis. To encourage students to attend the entire Mid-Year Conference, their conference registration fee is only \$25. Please encourage your doctoral students to attend, as this is a wonderful opportunity both for learning and for making valued contacts that will last throughout their careers. As an added benefit, the Auditing Section offers complimentary AAA and Section memberships for up to two years for all doctoral consortium attendees.

Section Committees

I am grateful to all those individuals who are serving on Section related committees. These individuals are busy with several initiatives for the Section. In addition to coordinating the research syntheses projects, the Research Committee (Jay Rich, Chair) is updating the Section's Research Database through 2005 while the Standards Committee (Bob Allen) is positioning itself to respond to upcoming exposure drafts, including

COSO's internal control for small businesses exposure draft to be issued in October by COSO. The Education Committee (Jay Thibodeau, Chair) is considering the development of a new Section sponsored online-journal focused on audit and assurance education. The Communications Committee (Brian Ballou, Chair) is exploring ways to raise the visibility of auditing research and education among business school deans through strengthened communications. In addition, they are working to identify ways to improve communications to Section members. Our Membership Committee (Chris Agoglia, Chair) is exploring creative ways to attract and retain members for the Section. Last year under Julia Higg's leadership, the Membership Committee offered one-year free trial memberships to non-members who indicated an interest in Audit education and research in the most recent Hasselback Directory, and the current Membership Committee is contacting those who accepted that offer (about 50 individuals) to encourage them to renew their membership with the Section. The Practice Advisory Council (PAC) is working on hosting a panel at the 2006 Mid-Year Conference and is helping to coordinate the PAC sponsored research project currently underway, with hopes of sponsoring future projects in 2006. Charles Stanley (CPE Chair) is coordinating CPE opportunities for the 2006 Mid-Year Conference and 2006 AAA Annual Meeting. Finally, several Section members are serving on selection committees for the Section's awards to be announced in January 2006.

Concern for Those Affected by Hurricanes Katrina and Rita

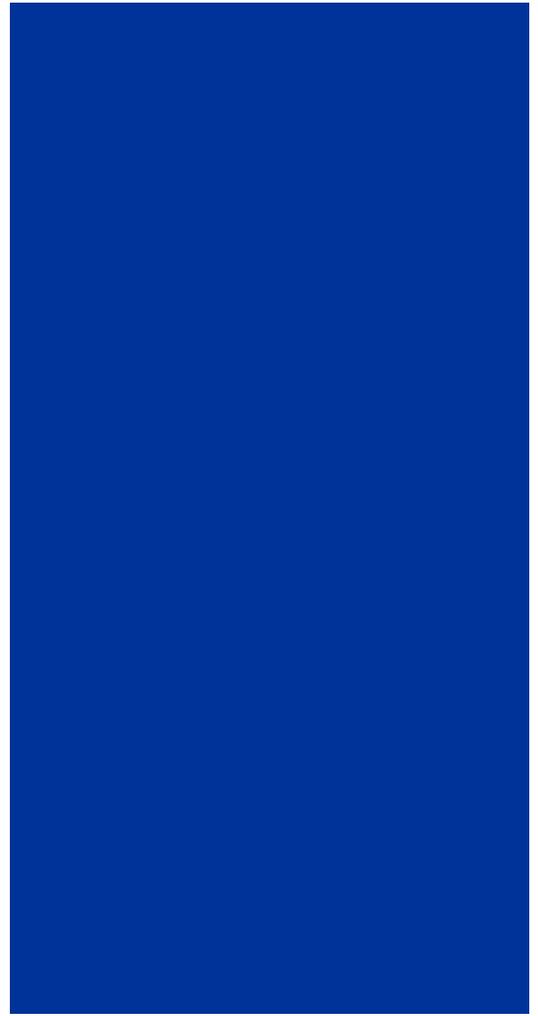
Our thoughts and prayers are extended to many of our Section members directly or indirectly affected by the recent Hurricanes along the Gulf Coast. Many of our members serve in universities directly in the storms' paths, while other members have close family and friends who may have been seriously affected by the recent tragic events. We offer our encouragement and

support to those affected and want to know if there is any way our Section can serve you as you recover from these recent challenges.

Help Us Help You

As I close, I want to encourage you to help us help you by keeping us informed of relevant developments affecting the profession and the Auditing Section. We will strive to keep the Section's membership informed through our web site, which is excellently maintained by Glen Gray, Section Webmaster, and through *The Auditor's Report*, which is expertly coordinated by Jim Bierstaker and Mark Zimbelman. We will periodically keep you informed of upcoming events and important information through email—so please make sure that you communicate any changes in email contact information to the staff at the AAA.

I look forward to seeing you in Los Angeles in January 2006. Make plans now for January in Hollywood!





THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Auditing Section Officer Election

2005–2006

The Auditing Section is holding elections for Vice President—Academic and Secretary. There are two candidates for each of those offices. The election will also confirm one candidate for the office of Vice President-Practice. Electronic voting will continue from October 6, 2005 through November 30, 2005. Below are biographies for each of the candidates. You can vote online at:

<http://aaahq.org/ballots/Aud2005/ballot2005.cfm>

Vice President—Academic

Mark E. Peecher, University of Illinois, Urbana-Champaign

Mark E. Peecher, C.P.A. Ph.D., is an Associate Professor and a Deloitte & Touche Teaching Fellow at the University of Illinois, Urbana-Champaign (UIUC). He holds B.S., M.A.S., and Ph.D. degrees in accountancy from UIUC. Prior to returning to his alma mater, Mark was an Assistant Professor at the University of Washington from 1994 to 1998. A highly regarded instructor, Mark teaches undergraduate and doctoral courses that focus on assurance and financial statement auditing and has chaired or served on several doctoral dissertation committees.



Mark's business-press writings on auditing have appeared in *The Wall Street Journal*, and his academic writings have appeared in *Auditing: A Journal of Practice & Theory*, *International Journal of Auditing*, *Journal of Accounting Research*, *Organizational Behavior and Human Decision*

Processes, and The Accounting Review. Mark has spoken and presented his research at numerous conferences, consortia, and universities, and he has served on the editorial boards at *Auditing: A Journal of Practice & Theory, The Accounting Review, and Issues in Accounting Education.*

Larry Rittenberg, University of Wisconsin

Larry Rittenberg is the Ernst & Young Professor at the University of Wisconsin-Madison. He has been a member of the auditing section since its founding and has twice served on the Auditing Standards Committee of the section. He is currently the Chair of COSO and is active in developing improved guidance related to internal control. Before that he served as the AAA's representative to COSO. He has served as Vice-President of Finance of the AAA and was active in developing an audit committee and budgeting processes for the AAA. He has been President of the Institute of Internal Auditor's Research Foundation and led the development of a monograph identifying research opportunities in internal auditing. Before that he served as Vice-Chairman of the Professional Practices of the IIA and helped develop the new professional practices framework for internal auditing. Larry's recent research activities have focused on internal audit outsourcing and corporate governance. Not surprisingly, his new research focus is on implementing and evaluating effective internal controls.



Secretary

Julia Lee Higgs, Florida Atlantic University

Julia Lee Higgs is an associate professor in the School of Accounting at Florida Atlantic University (FAU) where she has worked since she earned her Ph.D. in 1998 at the University of South Carolina. Her master's and bachelor's degrees are from The University of Tennessee. Julia is also a licensed CPA. She worked as a legislative auditor for the state of Tennessee and as the chief accountant for the Nashville, Tennessee school system before returning to school to pursue a Ph.D. Julia currently teaches an auditing seminar in the Ph.D. program at FAU in addition to auditing classes at the undergraduate and graduate level. She has regularly taught financial accounting, courses in accounting regulation, and has led four international accounting study tours to South America. She currently serves as the director of the master's program. Julia's publication record reflects an interest in scholarly, applied, and education research. Her primary areas of interest for accounting research include audit quality and professional workplace issues. Her work has appeared in *Behavioral Research in Accounting*, *Issues in Accounting Education*, and *Advances in Accounting*, and the *Financial Analysts Journal*. Julia has been an active member of the American Accounting Association at the section, region, and national levels. At the national level, she has served on the membership committee and as a member of council. In the auditing section she has served on the communications and nominating committees and chaired the membership committee. Julia will be coordinating the Auditing Section activities for the 2006 Annual Meeting.



Billy Soo, Boston College

Billy Soo is an Associate Professor at the Wallace E. Carroll School of Management at Boston College. He received his Ph.D. in Accounting and Information Systems from the Kellogg Graduate School of Management at Northwestern University and joined the Boston College faculty in 1990. Billy's research interests focus on audit markets and tenure, disclosure incentives, and the response of managers and markets to changes in regulations. He has published in *The Accounting Review*, *Journal of Accounting Research*, *Contemporary Accounting Research* and *Auditing: A Journal of Practice*



and Theory, and was on the editorial board of *Auditing: A Journal of Practice and Theory*. Billy has served on several AAA committees, including most recently as Program Co-chair of the 2005 Auditing Section Midyear Meeting and the New Faculty Consortium.

Vice President—Practice

Trevor Stewart, Deloitte

Trevor Stewart joined Deloitte in Johannesburg, where he became an audit partner and also led the national Computer Audit practice. Prior to becoming a partner, he spent several years with Deloitte in London, serving large audit clients as well as participating in development projects. In the United States, he became the global project director for the development of AuditSystem/2, Deloitte's audit methodology and technology platform. He is currently a member of the steering group overseeing the development of its successor and spends a significant amount of time working with the developers. Before the dot-com bubble burst, Trevor was a leader in the development of the global organization's e-Business services. He has a special interest and is actively involved in the development of quantitative and computer-based audit techniques and methodologies. He is a member of the Auditing Section's Practice Advisory Council (PAC). Trevor is a Chartered Accountant (South Africa) and has a BSc (Hons) degree in mathematics from the University of Cape Town.



Trevor is the author, with Kenneth W. Stringer, of *Statistical Techniques for Analytical Review* (John Wiley, 1986, 1996). Other publications include *The e-Business Tidal Wave* (Deloitte, 1998) and *Alliances and the Extended Enterprise* (Deloitte, 2002). He lives in Manhattan with his wife Margaret.

[Back to Contents Page](#)



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

12th Annual Auditing Midyear Conference

January 12–14, 2006

Registration is now open for the 12th Annual Auditing Midyear Conference (AMC) to be held in Los Angeles, California on January 12–14, 2006. The Conference will be held at the Hilton Los Angeles/Universal City, situated at the entrance to Universal Studios Hollywood and Citywalk high on a hill overlooking the Los Angeles entertainment district.

The KPMG Foundation is generously sponsoring the Midyear Conference, which will be held jointly with the American Accounting Association's International Section. The meeting will consist of keynote plenary speakers and concurrent sessions dealing with a wide variety of contemporary topics related to audit, attestation and assurance practices, education, and research with an emphasis on international issues. While the format will be similar to prior AMCs, the joint meeting allows us to host combined plenary sessions focused on international audit and assurance issues. Our section will maintain the same number of concurrent research and education sessions as in prior meetings. However, our members also will be able to attend concurrent sessions hosted by the International Section.

The program is shaping up to include many interesting events. On Friday morning, the main plenary session will highlight initiatives developing in international standard setting. We'll hear from two individuals heavily involved in global standards-setting issues affecting the auditing profession. John Kellas, Chair of the International Auditing and Assurance Standards Board, will discuss IAASB initiatives and international standard-setting within the European Commission. David Brown, member of the International Federation of Accountants' Public Interest Oversight Board (PIOB) and former Chair of the Ontario Securities Commission will discuss the PIOB's initiatives and interaction with other oversight bodies around the globe. Jim Sylph, Technical Director of the International Federation of Accountants (IFAC), will moderate this session. Saturday morning's opening plenary session will feature Greg

Garrison, lead partner for PricewaterhouseCoopers' U.S. Assurance Practice. Based in New York, Mr. Garrison serves as an engagement partner on the Academy Awards balloting process engagement. Building upon the conference's Hollywood setting, Mr. Garrison will provide an overview of the Academy Awards engagement and share his insights from leading PwC's U.S. Assurance Practice. The conference also will include panel sessions by the Auditing Section's Education Committee, Research Committee, and Standards Committee.

The 7th annual Auditing Section Doctoral Consortium will be January 12th, preceding the Midyear meeting. 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 interested in auditing, 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, and there is no limit to the number of students who may attend from any one university. However, there is a limit on the total number of students who can attend the Consortium. Applicants will be accepted on a first-come basis with repeat attendance allowed on a space available basis. Applications must be received by the AAA by **November 10, 2005**. For further information on the application process, please see *The Auditor's Report* (Fall 2005) and the section's website.

Conference information and registration are now available online at:
http://aaahq.org/meetings/2006AUD_meetinginfo.htm.

Make plans now to join us in Los Angeles next January!

Mark DeFond and Todd DeZoort
2006 Auditing Midyear Conference Co-Chairs

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

2006 Auditing Doctoral Consortium Program

Thursday, January 12, 2006 — Los Angeles, California

The Auditing Section of the American Accounting Association, through the generous support of KPMG Foundation, is sponsoring the seventh annual Auditing Section Doctoral Consortium on January 12, 2006. The Consortium will be held in Los Angeles, California at **The Hilton Universal City at Universal Studios** in conjunction with the Auditing Section's Mid-Year Conference (to be held January 13–14, 2006). 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 interested in auditing, established auditing researchers, and journal editors.

Registration Information

The Consortium is sponsored by the Auditing Section and KPMG LLP.

- 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, and there is no limit to the number of students who may attend from any one university. However, there is a limit on the total number of students who can attend the Consortium, and applicants will be accepted on a first-come basis with repeat attendance on a space available basis. Students who attend the Consortium will receive up to two years of complimentary membership in the Auditing Section and the AAA.
- Breakfast and lunch will be provided during the Consortium.
- The Auditing Section Doctoral Consortium itself is free. Students are responsible for their travel-related expenses. Any student wishing to attend must first apply and then, once accepted, complete the registration process. The application deadline is November 10th. Notice of acceptance or wait list status will be e-mailed on or about November 14th. Additional Consortium

application and registration information is available at the [Consortium website](#).

Students who attend the Auditing Section Doctoral Consortium are eligible to receive a complimentary one night, single-occupancy accommodation at The Hilton Universal City at Universal Studios for Wednesday night (January 11). The complimentary room night will be credited AFTER attending the doctoral consortium. Students must make their reservations directly with the hotel after notification of acceptance (on or about November 14th) and before completing the registration process (December 1st) as a hotel confirmation number is required to complete the Consortium registration process. Additional hotel and hotel registration information is available at the [Consortium website](#).

Auditing Section Doctoral Consortium Program

Time	Event	Speaker(s)
7:00 am–8:00 am	Breakfast	
8:00 am–8:15 am	Opening remarks	Karl Hackenbrack
8:15 am–9:45 am	Panel on Audit Institutions	Andy Bailey Lyn Graham Gary Holstrum
9:45 am–10:00 am	Break	
10:00 am–11:00 am	Researchable Issues	Bill Kinney
11:00 am–11:15 am	Break	
11.15 am–12:15 pm	Behavioral/Experimental Methods	Linda McDaniel
12:15 pm–1:15 pm	Lunch	
1:15 pm–2:15 pm	Analytical/Experimental Methods	Rachel Schwartz
2:15 pm–2:30 pm	Break	
2:30 pm–3:30 pm	Archival Methods	Jere Francis
3:30 pm–3:45 pm	Break	

3:45 pm–5:30 pm Panel on Issues in Publishing
Research

Jane Kennedy
Dan Simunic

6:00 pm–7:00 pm Doctoral Consortium Reception

7:00 pm–8:30 pm Auditing Section Reception

For additional information contact Karl Hackenbrack via phone (615-322-3641) or email (karl.hackenbrack@vanderbilt.edu).

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

What Accounting Students Need to Know About Fraud Part I

Joseph T. Wells

Introduction

Long ago and far away, I graduated with an accounting degree. In the days before Enron and WorldCom were infamous, I wasn't taught very much about fraud. But after two years in public accounting, I had concluded that auditing was definitely not my "forte". I found the long hours boring and tedious. In search of adventure, I became an FBI agent who specialized in the investigation of white-collar crime.

In nearly ten years I reckon I handled part or all of about two thousand cases. But for nearly four decades, my life's work has been in understanding fraud so that it can be prevented and detected. At the request of the Graduate Business School at the University of Texas at Austin, I started teaching a three-hour fraud course several years ago. It is one of the most popular courses at the college. That's because while traditional accounting courses teach how accounting systems are *used*, this one teaches how they are *misused*. Regularly, students say how it has opened their eyes to a whole new discipline.

This article is the first of three that details what accounting students need to know about fraud. As you will read, it is much more than debits and credits. As a matter of fact, some of the material has nothing to do with accounting at all. To begin, we will discuss two important predicates: the law as it relates to fraud and an understanding of criminal behavior. Both are critical to resolving fraud-related issues.

The Law as it Relates to Fraud

First, it is necessary to issue the standard disclaimer: I am not a lawyer. For legal

advice, consult your attorney. But in general, there are four legal elements to fraud — no matter if it is financial statement fraud, embezzlement or corruption. My students know the elements of fraud by heart.

A Material False Statement Not every false statement is material. The law doesn't address "white lies" nor does it address opinions as long as they are labeled as such. Materiality, of course, is a user-oriented concept.

Knowledge that the Statement is False The difference between errors and fraud is intent or knowledge. There is no such thing as an "accidental fraud." The actor must have the intent to deceive. In the legal sense, intent is the most difficult element, because it requires proving someone's state of mind at the time of the material false statement.

Reliance by the Victim on the False Statement Even if the actor made a material false statement with knowledge of its falsity, there is no fraud if the victim did not rely upon the statement. For example, when I was an FBI agent, banks would commonly claim fraud after a borrower defaulted on a note. But it became clear that some banks did not rely upon the puffed and unaudited financial statements of their borrowers, but on the underlying hard collateral. In those cases, the banks were unsuccessful in sustaining a fraud claim.

Damages If the victim relied upon a material false statement and the actor knew it was false, there is no fraud unless there are damages (certain exceptions for this element exist with attempted fraud against the government). The important thing for students to understand is that all four elements must be present to prove fraud.

Accounting students also need to know what to do with evidence of fraud if discovered. Should documents be mishandled or misplaced, the chain of custody might not be proven, a critical element in the legal process.

Criminal Behavior

Were I to ask the average accountant or accounting student, "Why is fraud committed?" the standard response would be "inadequate internal controls." That answer is not only misleading; it ignores an understanding of human behavior. Fraud isn't committed by accounting systems but by people. Given outwardly identical circumstances, one person will turn to fraud while another will not. Why? The answers lie in the complex world of criminology.

There are numerous — indeed, almost countless — criminological theories. But accounting students need to be exposed to the principle ones: specific deterrence (how to deter someone individually from committing crime), general deterrence (the message others get by punishing another person), biological theories (that criminal behavior is inherited), anomie theories (that crime is caused by wanting more than we have), learning theories (that the tendency to commit crime is learned from observing criminal behavior) and psychological theories (that crime is caused by a dysfunctional early childhood environment).

Students also need to be exposed to the criminal justice system — the process that leads to arrest, indictment, trial, conviction and incarceration of fraud offenders. Only by doing so can the student place crime in its proper context. Fraud is not an accounting problem; it is a societal phenomenon and should be recognized as such. In the next issue, we will begin delving into the specific schemes that are used by dishonest employees and executives to defraud organizations.

Joseph T. Wells, CFE, CPA is founder and chairman of the 34,000-member Association of Certified Fraud Examiners. He is an adjunct professor of fraud examination at the University of Texas and the author of 11 books and scores of articles on fraud. For the last seven years in a row, Mr. Wells has been named to Accounting Today's list of "100 Most Influential People in Accounting." His email address is jwells@cfenet.com.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Performing a Literature Synthesis Project for the PCAOB

Dana R. Hermanson
Kennesaw State University

The Auditing Section recently solicited volunteers to participate in "syntheses of existing research related to key PCAOB standards-setting projects" (see http://aaahq.org/audit/call_for_participants_in_researc.htm). The future projects include:

- Audit Confirmations
- Audit Firm Quality Control
- Audit Reporting Model
- Auditing Related Party Transactions
- Communications with Audit Committees
- Engagement Quality Review (concurring or second partner review)
- Financial Fraud.

I recently worked with an outstanding team of researchers (Bob Allen, Tom Kozloski, and Bob Ramsay) on one of the first two projects for the PCAOB — a literature synthesis on Auditor Risk Assessment. As of this writing, our project is nearing completion. The purpose of this brief piece is to share the nature of our process and my experience, so that others can have an idea of what to expect on such a project.

Assembling the Team

Going forward, the Auditing Section will be creating the research teams. Our team was a subset of the Auditing Standards Committee members — those who expressed an interest in this project. Bob Allen, Tom Kozloski, and Bob Ramsay all had significant knowledge of the subject area, while I viewed my role as oriented

more toward project management, editing, and interacting with the PCAOB staff. I believe that it is important to identify, right at the beginning, a person to take on the project management role.

Organizing and Dividing the Work

The first question our team addressed was, "What exactly does the PCAOB staff want to know about auditor risk assessment?" Our fear, which was later confirmed, was that there would be far too much literature to synthesize. To answer this question, we went to the PCAOB Briefing Paper on risk assessment that had been prepared for a Standing Advisory Group (SAG) meeting (available on the PCAOB website). This briefing paper presented 10 broad discussion questions for the SAG, and we ultimately used this framework to organize our literature review. This approach may not always be optimal, but it seemed to work well for our group.

Once we had the organizing framework laid out, we divided responsibility for the literature searches. Bob Ramsay was in charge of "business risk" issues, including innovations in the audit approach to consider strategic-level client risks. Tom Kozloski was in charge of "fraud risk" issues, which were later integrated throughout the paper. Bob Allen and I took responsibility for "inherent risk," "control risk," and "audit risk model" issues, including the linkage between auditors' risk assessments and the nature of subsequent audit testing.

The literature searches included databases of published papers, as well as scans of the AAA Annual Meeting program, Midyear Meeting program, and SSRN. In addition, we contacted certain authors in the area and asked about current working papers. The searches produced much more than we could reasonably synthesize, so we went through a process of eliminating papers that we did not believe were directly related to the 10 PCAOB questions, as well as some papers that had findings similar to other papers. Once we had a reasonable list of papers, we organized them by the 10 areas and began to write the sections of the paper. We then pulled the sections together and identified the key messages from our review. Finally, we identified future research directions.

Much of our group's interaction was through email. We held a few four-way conference calls at key points in the project, and we often had an informal agenda or proposal to guide these discussions.

Timing and Workload

Our work on this project began around March 1, 2005 and involved fairly steady

effort for just over four months. We did not track our hours, but I would equate this project with other papers targeted to *Journal of Accounting Literature* or a similar outlet. Obviously, our "data" was the results found in others' research, so this type of project can be done more quickly than a large-scale empirical project. The relatively tight timeframe on these projects, though, does require that everyone on the team be able to jump in immediately and hit all the key deadlines. Our team set several intermediate deadlines, especially in April – June to ensure that we were all on target during the process.

Interacting with PCAOB Staff

Our interaction with the PCAOB staff has been fairly steady throughout the project, and often by email, with the goal of making sure our team understood some of the key issues of interest at the PCAOB. In addition, I had a couple of calls with Gary Holstrum and other PCAOB staff to clarify the scope of our project. The PCAOB staff has been extremely supportive of the project and has provided important feedback to help us to more effectively communicate the message of the underlying academic research. Gary also has been very helpful in prompting us to think about and enumerate areas for future research on auditor risk assessment. In summary, our interaction with the PCAOB staff has been very positive.

Informal Review Process

Our first draft of the paper (in late June) was sent to Gary Holstrum at the PCAOB, as well as to several prominent researchers in the area who previously had agreed to give us feedback (Mark Beasley, Jean Bedard, Rich Houston, Ed O'Donnell, and Arnie Wright). Each of these individuals provided us with valuable feedback in a very quick, two-week turnaround. The feedback included identifying several working papers and a few published papers that we added to the synthesis. After we incorporated these suggestions into the paper, we had Joe Carcello review the revised paper as an additional check, and we have given Gary Holstrum the opportunity to request any additional clarifications from the PCAOB staff's perspective.

Working Toward Completion and Publication

Our project is targeted toward publication in *Accounting Horizons*. The President of the Auditing Section (Linda McDaniel at that time) approached Editor Bob Lipe as to his interest in publishing reports prepared by the teams. He expressed interest, and he asked that each team submit a two-page synopsis of their project, which would be reviewed by members of his editorial staff. In our case, the editorial staff concluded

the topic and the committee's approach were a good fit with *Horizons*, and Bob informed us our project would be a commissioned commentary. Also, the editorial staff provided feedback on the proposal. We will submit a full version of the paper to *Accounting Horizons* by late October. As long as the final document conforms to the proposal, Bob will publish it, subject to a final round of expositional editing. He and the incoming editors of *Horizons* expressed interest in treating other Auditing Section synthesis projects in this manner.

Personal Benefits

I have experienced three major benefits from participating in this project. First, it has been a pleasure to interact with the PCAOB staff and be in a position to contribute to their process of developing auditing standards. Often, academics may believe that no one is reading their work — or at least that no decision-makers are reading it. With these PCAOB projects, you can be assured that your work will be read and appreciated by the auditing profession's key regulator.

Second, I had the opportunity to work on a project with three people with whom I had not previously written a paper. Each of three, Bob Allen, Tom Kozloski, and Bob Ramsay, is dedicated, talented, and extremely conscientious. I fully expect that this project will lead to additional research projects.

Finally, I learned a lot from doing the project. Of the four of us, I think I had the most to learn about auditor risk assessment literature, but I believe that we all gained a much more complete perspective on the research in this area. This perspective will help me in the classroom (I am teaching undergraduate Auditing for the first time in my career this semester), as well as in future research projects.

Conclusion

I hope that these observations are helpful to others who are considering a PCAOB research synthesis project in the future. While the deadline for indicating an interest to serve on the seven current PCAOB projects has passed (September 15th), there will ongoing opportunities to serve on future research teams. I strongly encourage Section members to get involved. To me, this is what research is all about — providing insights to the decision-makers. In the process, I think you'll learn a lot, too.

Rich Houston
Using a Simple Word Problem to
Develop Accounting and Auditing Skills

ABSTRACT

I present a simple problem that instructors can use to teach or review fundamental accounting concepts. This problem also can serve as a basis for developing students' research and class presentation skills. I have used this problem successfully in my auditing classes. I advocate the use of this seemingly simple problem to show students how accounting is used to solve problems as well as illustrate the judgment involved in accounting for certain transactions. I propose the "bellboy problem" as a means to introduce or review fundamental accounting concepts as well as a way to show students how accounting concepts can be used to solve problems.¹

THE BELLBOY PROBLEM

There is a story about three traveling salesmen who check into a hotel and rent a room for \$60. After they go to their room, the manager, who receives a commission based on gross revenues earned while he is on duty, realizes that the room costs \$55 and that he's overcharged them. He gives \$5 to the bellboy, and directs him to give it to the three men. Not knowing how to divide the \$5 evenly, and in need for a couple of dollars for dinner, the bellboy decides to give \$1 to each of the three men and pockets the remaining \$2 for himself. Later that night the bellboy realizes that the men each paid \$19 (\$20 minus the \$1 they received from him). Consequently, because the \$57 the men paid

¹ This problem has no specific author, and I have seen many versions of it. I obtained the version that I include below and have used in class from John Allen Paulos' *A Mathematician Reads the Newspaper* (1995, p. 86). I have contacted Mr. Paulos for proper attribution, and he claims that the problem is "in the public domain."

(\$19 each multiplied by three men) plus the \$2 he kept for himself makes \$59, the bellboy wonders what happened to the missing dollar.

Required

1. Using accounting concepts, show the bellboy that there is not a missing dollar. As part of this requirement, prepare journal entries as well as an income statement and cash flow statement for each of the parties involved. When preparing journal entries, pay particular attention to how to account for the \$2 kept by the bellboy (i.e., what accounts are involved).
2. Is the \$2 that the bellboy kept material? Consider this question from the point of view of the bellboy, the hotel manager, and the traveling salesmen.
3. Recall that the hotel manager receives a commission based on gross revenues earned while he is on duty. Because of this incentive, compare how he should account for the \$5 refund to how he might be motivated to account for the \$5 refund. Would acting on this motivation constitute fraudulent accounting?

CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Objectives

The primary objective of this case is to allow student to use basic accounting skills (i.e., journal entries and financial statements) when problem-solving. They also will be exposed to (and perhaps introduced to the concept of materiality, which underlies many facets of accounting and auditing. In addition, they will focus on some of the basic accounting definitions (e.g., gains, revenues, liabilities) in a practical setting.

In addition, this case can serve as the basis for requiring students to complete research using commonly-used accounting electronic databases or textbooks. For example, instructors should urge students to research the definition of materiality, and be able to differentiate qualitative and quantitative materiality. Possible electronic databases include PricewaterhouseCoopers' Comperio database or the Financial Accounting Research System (FARS).

Implementation Guidance

I have used this problem in both a Master's level auditing class as a way to review fundamental accounting and auditing concepts, and in the second week of the first semester of Intermediate Accounting, as a way to review journal entries and financial statement preparation, as well as to provide an introduction to the concept of materiality. I presented this problem to two sections of each of the two classes. I believe that this problem could be particularly effective if used in introductory accounting, perhaps after students are first exposed to journal entries and the basic financial statements.

In the intermediate accounting classes (each of the two sections contained approximately 30 students), I handed out the problem and was more explicit about telling the students to complete journal entries and financial statements—I did not explicitly state which financial statements they should consider. Students in this class sat at desks containing about four students per desk, and they worked in these groups.

Suggested Solution

1. Using accounting concepts, show the bellboy that there is not a missing dollar. As part of this requirement, prepare journal entries as well as an income statement and

cash flow statement for each of the parties involved. When preparing journal entries, pay particular attention to how to account for the \$2 kept by the bellboy.

Journal Entries

Hotel:

Cash	60	
Guest revenues		60

Received from guests upon registration.

Guest revenues	5	
Cash		5

Refund of overpayment.

Bellboy:

Cash	5	
Payable to customers		5

Receive \$5 to distribute to customers.

Payable to customers	5	
Cash		3
Gain on undistributed refund		2

Pay customers \$5 and keep remaining \$2.

Guests (aggregated across the three guests):

Hotel expense	60	
Cash		60

To pay for room upon registration.

Cash	3	
Hotel expense		3

Receipt of \$3 refund of overpayment.

To prove that the problem “balances,” students could take a cash flow statement or an income statement view. The key is to group the hotel and bellboy separately from the three salesmen. Because the problem is phrased in terms of missing \$1 of cash (i.e., \$59 vs. \$60), the cash flow statement is a logical place to start.

Cash flow statement view: The hotel receives \$55 cash while the bellboy receives \$2 cash, for a total of \$57. The customers spend a total of \$57 cash. Therefore, the

problem balances; the guests spend \$57, with \$55 going to the hotel and \$2 to the bellboy.

Income statement view. The hotel has revenue of \$55 and the bellboy has revenue of \$2; together, the hotel and its employee have \$57 in revenue. Conversely, after the refund, the salesmen have \$57 in hotel expense. Consequently, the problem works; the hotel people have \$57 of revenue while the customers have \$57 of expenses.

Some students might record the \$2 kept by the bellboy as a liability and some will record it as income. The instructor can raise the question of whether the \$2 kept by the bellboy should be classified as a gain, revenue, or a liability. Does it depend on his intentions (i.e., whether he intends to keep it or seek help in dividing it). To solve the problem, encourage the students to consult the FASB's definitions of gains, revenue, and liabilities. SFAC No. 6 defines, gains, revenues, and liabilities as follows:

Liabilities. Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

Revenues. Inflows or other enhancements of assets of an entity or settlement of its liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Gains. Increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances

affecting the entity during a period except those that result from revenues or investments by owners.

Given these definitions, it seems most reasonable for the bellboy to call the \$2 a gain. The bellboy likely has no intention of paying back the \$2 and the \$2 kept does not constitute his “ongoing major or central operations.”

2. Is the \$2 that the bellboy kept material? Consider this question from the point of view of the bellboy, the hotel manager, and the traveling salesman.

First, the instructor should ensure that students understand the definition of materiality. That is, an item is material when it is large enough to matter to a user. This question is also useful because there is no one right answer. The answer depends on each party’s point of view. The students or instructor can refer to any or all of the following views of materiality as support for the response. The following section, which can be used as a basis for discussing materiality, is obtained from the SEC’s Staff Accounting Bulletin (SAB) No. 99, *Materiality*:

The FASB’s Statement of Financial Accounting Concepts No. 2, “Qualitative Characteristics of Accounting Information,” defines materiality as follows:

Materiality is the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

This formulation in the accounting literature is in substance identical to the formulation used by the courts in interpreting the federal securities laws. The Supreme Court has held that a fact is material if there is –

A substantial likelihood that the fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available.

The FASB rejected a formulaic approach to discharging "the onerous duty of making materiality decisions" in favor of an approach that takes into account all the relevant considerations. In so doing, it made clear that –

Magnitude by itself, without regard to the nature of the item and the circumstances in which the judgment has to be made, will not generally be a sufficient basis for a materiality judgment.

In addition, students can consider that the SEC concluded that exclusive reliance on quantitative approaches to assess materiality (e.g., percentages, numbers, or formulas) is not acceptable. The SEC emphasized that even very small misstatements may be material when qualitative factors are considered. SAB No. 99 goes on to describe qualitative materiality as follows: "As used in the accounting literature and in this SAB, 'qualitative' materiality refers to the surrounding circumstances that inform an investor's evaluation of financial statement entries."

To the hotel, the \$2 kept by the bellboy is not material in the sense that \$2 of lost revenue likely does not affect the hotel's financial statements. However, if the hotel is

concerned that the guests will find out about the stolen \$2 and therefore not stay again at the hotel, then it is material.

To the bellboy, the \$2 may not be material if he only kept it because he could not figure out how to divide the \$5 equally. However, because the bellboy needs the \$2 to get dinner, it is material in the sense that it is important to him.

Of course, the customers must be aware of the \$2 kept by the bellboy for the amount to be potentially material. To the customers, the \$2 is not material in the sense that they each will be able to be reimbursed for their out-of-pocket expenses; therefore, they will simply receive a larger reimbursement. It would be material if they chose to turn in the original \$60 room rate for reimbursement and then learned that instead of pocketing the \$1 reimbursement, they could have pocketed \$1.67. The amount also would be material if the guests decide that they no longer will stay at a hotel at which they were cheated.

3. Recall that the hotel manager receives a commission based on gross revenues earned while he is on duty. Because of this incentive, compare how he should account for the \$5 refund to how he might be motivated to account for the \$5 refund. Would acting on this motivation constitute fraudulent accounting?

The hotel should properly account for the \$5 reimbursement as a reduction of revenue. However, if the manager is motivated to maximize revenues (and therefore his commission), he could have recorded the reimbursement as follows:

Bellboy expense	5	
Cash		5

While the debit could have been to an expense other than “bellboy expense,” the point is that, by not reducing revenue, the manager is inflating his commission. In addition, hotel revenues are overstated by \$5 and, if the \$5 is classified as something other than cost of services, then gross profit also is overstated. While the amount may not be material to users of the hotel’s financial statements, the point is that some key figures (e.g., total revenues, gross profit) may be misstated.

Does this act constitute fraudulent accounting? Fraud is defined as actions taken with the knowledge and intent to deceive. Because the manager intends to deceive his employer, the action constitutes fraud. The instructor also can point out that, even though the amount involved is merely some fraction of the \$5 (i.e., his commission rate), the point is that the employee cheated the employer, which could cause him to lose his job. That is, fraud often is considered material regardless of the dollar amount involved; therefore, this provides an example of qualitative materiality.

In terms of categorizing fraud, the students should be aware that the bellboy’s theft constitutes misappropriation of assets. Because the hotel and salesmen properly account for the transaction based on what they perceive has occurred, there is no indication that fraudulent financial reporting has taken place. According to the fraud triangle, there are three necessary conditions for fraud to occur: pressure/incentive, opportunity, and rationalization (see SAS No. 99: *Consideration of Fraud in a Financial Statement Audit* for a discussion of the fraud triangle). In the case of the bellboy, students can assert that the bellboy must have decided to commit fraud because he has a pressure / incentive (e.g., need money for dinner), an opportunity (he has the \$5 in hand and the customers are unaware of the proper refund), and

rationalization (the bellboy thought that, because he could not divide five by three, he could keep the extra \$2 or that the extra \$2 might compensate him for receiving an unfairly low wage).

The manager, conversely, has both an incentive (a bonus based on gross revenue) and opportunity (the customers were unaware of the overcharge) to commit fraud (i.e., not refund the \$5 overcharge and record it as revenue), but apparently did not conclude (i.e., rationalize) that it was acceptable to keep the \$5 overcharge.

Additional Discussion Topic

Students also can be asked to identify problems with the hotel's control system that allowed the bellboy to get away with keeping the \$2. For example, why were the salesmen charged the incorrect amount? Why didn't the manager call them and say that the bellboy was on the way with the \$5 refund? Why were the salesmen not given a new receipt? Why did the system allow the customers to be charged the incorrect rate, and why did the manager not know of the error immediately?



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

PCAOB Standards-Setting Update¹

By Gary L. Holstrum* and Douglas R. Carmichael**

Prior PCAOB update articles in the [Spring 2005](#) and [Summer 2005](#) issues of *The Auditor's Report* contain background information about the PCAOB standards-setting process and initial work to develop research syntheses related to two PCAOB projects. In addition, those articles include hyperlinks to PCAOB briefing papers on a variety of its standards-setting projects.

This update focuses on PCAOB standards-setting developments that have occurred since the last PCAOB update in the Summer 2005 issue, including –

- Additional staff guidance on audits of internal control;
- New rules on independence, tax services, and contingent fees and a new standard on *Reporting on Whether a Previously Reported Material Weakness Continues to Exist*; and
- The 2006 PCAOB proposed standards-setting projects and information about the formation of research teams by the Auditing Section to develop syntheses of existing research related to each major project.

Additional Staff Guidance on Audits of Internal Control — To assist in the implementation of audits of internal control, the PCAOB, on May 16, issued [18 Staff Guidance Q&As](#) accompanied by a [Board Policy Statement](#) expressing the Board's view that, to properly plan and perform an effective audit under Auditing Standard No. 2, auditors should –

- ***Integrate their audits*** of internal control with their audits of the client's financial statements, ***so that evidence gathered and tests conducted in the context of either audit contribute to completion of both audits;***
- ***Exercise judgment to tailor their audit plans to the risks facing***

individual audit clients, instead of using standardized "checklists" that may not reflect an allocation of audit work weighted toward high-risk areas and weighted against unnecessary audit focus in low-risk areas;

- **Use a top-down approach** that begins with company-level controls, to identify for further testing only those accounts and processes that are, in fact, relevant to internal control over financial reporting;
- **Use the risk assessment required by the standard** to eliminate from further consideration those accounts that have only a remote likelihood of containing a material misstatement;
- Take advantage of the significant flexibility that the standard allows to **use the work of others**; and
- **Engage in direct and timely communication with audit clients** when those clients seek auditors' views on accounting or internal control issues before those clients make their own decisions on such issues, implement internal control processes under consideration, or finalize financial reports.

The PCAOB also devoted the [June 2005 meeting of its Standing Advisory Group](#) to a discussion of implementation issues related to the first year of audits of internal control and appropriate strategies for the second year of audits.

Independence, Tax Services, and Contingent Fees — On July 26, following public comment on proposed rules, the PCAOB adopted, subject to SEC approval, ethics and independence rules that focus on independence, tax services, and contingent fees. The rules treat a registered firm as not independent of a public company audit client if the firm, or an affiliate of the firm, provided any service or product to an audit client for a contingent fee or a commission, or received from an audit client, directly or indirectly, a contingent fee or commission. The rules also treat such a firm as not independent if the firm, or an affiliate of the firm, provided assistance in planning, or provided tax advice on, certain types of potentially abusive tax transactions to an audit client or provided any tax services to certain persons employed by an audit client. Further, the rules require registered public accounting firms to provide certain information to audit committees in connection with seeking pre-approval to provide non-prohibited tax services. The rules also establish that a person associated with a registered public accounting firm shall not cause that firm to violate the Sarbanes-Oxley Act, the Rules of the Board, relevant provisions of securities laws and rules, and professional standards due to an act or omission the person knew, or was reckless in not knowing, would directly and substantially contribute to such violation.

Proposal of a Standard on Reporting on Whether a Previously Reported Material Weakness Continues to Exist — Following public comment on a proposed standard, the PCAOB, on July 26, adopted an auditing standard, subject to SEC

approval, that establishes requirements and provides direction for an auditor who is engaged to report on whether a previously reported material weakness in internal control over financial reporting continues to exist as of a date specified by management. The engagement described by this standard is voluntary. The standards of the PCAOB do not require an auditor to undertake an engagement to report on whether a previously reported material weakness continues to exist. The auditor may audit the company's internal control over financial reporting in accordance with Auditing Standard No. 2 without ever performing an engagement in accordance with this standard.

Proposed 2006 Standards-Setting Projects and Auditing Section Research Synthesis Teams — Auditing Section leaders have had an excellent response to their [web site call for participants](#) in a research program related to PCAOB standards-setting projects. Section leaders are in the process of forming teams of researchers to develop syntheses of research related to each major proposed 2006 PCAOB standards-setting project, and they expect to announce the teams in early November. The major proposed 2006 PCAOB standards-setting projects are shown below, with hyperlinks to related PCAOB staff briefing papers on the PCAOB Web site:

- [Audit Confirmations](#)
- [Audit Firm Quality Control](#)
- [Audit Reporting Model.](#)
- [Auditing Related Party Transactions](#)
- [Communications with Audit Committees](#)
- [Engagement Quality Review](#)
- [Financial Fraud](#)

Additional information about some of these projects is available in hyperlinked materials for the [October meeting of the PCAOB Standing Advisory Group](#), which included discussion of the 2006 proposed standards-setting projects, panel sessions on [engagement quality reviews in smaller firms](#) and [communications with audits committees](#), [reasonable assurance](#), and [principles of audit reporting](#).

¹Note the hyperlinks to the PCAOB Web site (www.pcaobus.org) and to the [announcement of the research synthesis program on the Auditing Section Web site](#).

*Gary Holstrum is Associate Chief Auditor and Director of Research at the PCAOB.

****Douglas Carmichael is PCAOB Chief Auditor and Director of Professional Standards.**

The views expressed in this article are those of the authors and not necessarily those of the Board, individual Board members, or other PCAOB staff. Responses to the article or related research may be emailed to holstrumg@pcaobus.org.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Have You Seen...?

Sudip Bhattacharjee, Virginia Tech
Brian Mayhew, University of Wisconsin
Evelyn Patterson, Indiana University Purdue University Indianapolis
and Mark F. Zimbelman, Brigham Young University

"An Experimental Investigation of Approaches to Audit Decision Making: An Evaluation Using Systems-Mediated Mental Models," by A. K. Choy and R. R. King, *Contemporary Accounting Research* (Volume 22, 2005): 311-350.

This paper develops a framework for a systems-based audit approach. In doing so, the paper combines mental model theory with general systems theory to produce a hypothesis called systems-mediated mental model hypothesis and tests it using experimental economics methods. The results suggest that subjects make systematic errors under the setting without an organizing framework provided by the systems information and the presence of an organizing framework resulted in fewer errors. Importantly, the organizing framework significantly enhanced decision making in the settings where the environment changed.

"Changes in Internal Auditing During the Time of the Major US Accounting Scandals," by, J. V. Carcello, D. R. Hermanson, and K. Raghunandan, *International Journal of Auditing*, (Volume 9, 2005): 117-127.

This paper examines changes in internal auditing during the period following the Enron and WorldCom frauds. The data suggest that internal audit budgets, staffing levels, meetings with the audit committee, and meeting length all increased markedly during this time. Further, the evidence suggests that there were larger budget increases among smaller companies and in companies with greater financial resources or with greater liquidity risk.

"Who Cares about Auditor Reputation?," by J. Barton, *Contemporary Accounting*

Research (Volume 22, 2005): 549-586.

This paper examines the defections of Arthur Andersen's clients following the accounting scandals and criminal conviction Andersen experienced in 2002. The results show that clients defected sooner, mostly to another Big 5 auditor, if they were more visible in the capital markets as proxied by clients that attracted more analysts and press coverage, had larger institutional ownership and share turnover, and raised more cash in recent security issues. In sum, the study suggests that more visible firms are more concerned about engaging highly reputable auditors, consistent with such firms trying to build and preserve their reputations for credible financial reporting.

"Auditors as Underwriters: An Alternative Framework," by S. Bhattacharjee, K. Moreno and J. A. Yardley, *International Journal of Auditing* (Volume 9, 2005): 1-19.

This paper proposes an alternative institution for auditing by requiring public companies to purchase insurance to indemnify their financial statements against material misstatements. The insurance company would hire an auditor to assess the risk of material misstatements in the financial statements and the auditor, in the capacity of underwriter, would assess the risk to determine the amount of the insurance coverage and premium. The authors argue that the proposed model would allow the SEC and the stock markets to more effectively reduce investors' information risk and restore investors' confidence in financial reporting.

"The Effect of Partner Preferences on the Development of Risk-Adjusted Program Plans," by J. L. Bierstaker and A. Wright, *Advances in Accounting* (Volume 21, 2005): 1-23.

The paper uses an experiment to explore the impact of partner preference on auditors' planning decisions in response to risk. Partner preferences were manipulated as either "efficiency" focused or "balanced" which entailed consideration of both effectiveness and efficiency. Auditors performed program planning for the revenue cycle of a hypothetical client. The results show a significant interaction between auditors' risk assessments and partner preferences. When the partner expressed a preference for a balanced approach the auditors recorded higher risk assessments and a more tests and hours relative to when the partner expressed a preference for efficiency only.

"The Impact of Management Image and Non-Audit Service Fees on Investors' Perceptions of Earnings Quality," by S. Solomona, P. M. J. Reckers and D. Jordan Lowe, *Advances in Accounting* (Volume 21, 2005): 199-216.

This paper examined the extent to which the perceived credibility of a corporation's financial statements is a function of the public's perception of the corporation's leadership and/or the auditor's independence. The paper looked at the public image of the CEO as projected in the press, and the perception of auditor independence as projected by mandated public information about non-audit services. Results from an experiment using third-year law students suggest that even in an environment fully compliant with SOX reforms, public perceptions of the integrity of management and the independence of auditors influence individuals' confidence in the financial statements.

"The Association between Corporate Boards, Audit Committees, and Management Earnings Forecasts: An Empirical Analysis," by I. Karamanou and N. Vafeas, *Journal of Accounting Research* (Volume 43, 2005): 453-486.

This paper studies how corporate boards and audit committees are associated with voluntary financial disclosure practices as proxied by management earnings forecasts. The findings indicate that managers are more likely to make or update an earnings forecast in firms with more effective board and audit committee structures. However, the forecast is less likely to be precise, it is more accurate, and it elicits a more favorable market response. Together, the results provide evidence suggesting that effective corporate governance is associated with higher financial disclosure quality.

"Does the Market Value Financial Expertise on Audit Committees of Boards of Directors?," by M. L. Defond, R. N. Hann, and X. Hu, *Journal of Accounting Research* (Volume 43, 2005): 153-193.

This study examines whether the market reacts favorably to the appointment of audit committee members who have financial expertise. Specifically, market reactions to two types of experts are examined: accounting financial experts (as initially proposed by SOX) or non-accounting financial experts (as ultimately passed in SOX). The results show a positive reaction to the appointment of accounting financial experts but no reaction to nonaccounting financial experts. The findings are consistent with the notion that accounting-based financial skills improve an audit committee's ability to ensure high-quality financial reporting whereas broader financial skills do not.

"Do External Auditors Perform a Corporate Governance Role in Emerging Markets? Evidence from East Asia," by J. P. H. Fan and T. J. Wong, *Journal of Accounting Research* (Volume 43, 2005): 35-72.

This study examines whether independent auditors are employed as monitors or bonding mechanisms, or both, to alleviate the agency problems found in emerging markets. Using a sample from eight East Asian economies, the study documents that firms with agency problems embedded in the ownership structures are more likely to employ Big 5 auditors. Furthermore, firms using Big 5 auditors were found to receive smaller share price discounts. Also, Big 5 auditors appear to take into consideration their clients' agency problems when making audit fee and audit report decisions. Taken together, these results suggest that Big 5 auditors have a corporate governance role in emerging markets.

"Information Systems Risk and Audit Planning," by J. C. Bedard, L. Graham and C. Jackson, *International Journal of Auditing* (Volume 9, 2005): 147-163.

This study examined client characteristics that external auditors believe are relevant to two areas of systems risk: system security and management information quality. The study describes the client characteristics identified by the auditors and relates those characteristics to systems risk assessments and testing plans. Results indicate that auditors predominantly identified risk-increasing characteristics but they also identified risk-decreasing characteristics. The results suggest that audit planning for EDP security is associated with risk factors relating to control activities but not to control environment.

"Independence Threats, Litigation Risk, and the Auditor's Decision Process," by A. D. Blay, *Contemporary Accounting Research* (Volume 22, 2005)

This study uses an experiment to examine the effect of independence threats and litigation risk on auditors' evaluation of information and their reporting decisions. The author tracked auditors' information gathering and evaluation for a going-concern reporting decision. The findings suggest that auditors who faced high independence threats engage in motivated reasoning and evaluate information as more indicative of a surviving client leading to an unmodified audit report. In contrast, auditors facing high litigation risk evaluated the information as more indicative of a failing client and were more likely to suggest a modified audit report.

"A Within-Firm Analysis of Current and Expected Future Audit Lag Determinants," by B. K. Behn, D. L. Searcy and J. Woodroof, *Journal of Information Systems* (Volume 20, 2006)

This paper reports the impediments that practicing auditors identify as keeping them from significantly reducing the time need to issue an audit report. The authors surveyed audit partners and found that insufficient personnel, both with the client and

the audit firm, appear to have caused prior audit report lags. Additionally, the partners state that the mindsets of both clients and auditors must change before audit report lags will be significantly reduced. Finally, the partners suggest that auditors' skills must improve and a flexible scheduling process must be used to reduce audit lag. The implications for continuous auditing are discussed.

[Back to Contents Page](#)



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

"Have You Seen These Instructional Resources?"

By the 2005–2006 Education Committee of the Auditing Section of the
AAA

Jay C. Thibodeau, Chair - Bentley College

Michael Akers - Marquette

Greg Jenkins - Virginia Tech

Richard Riley - West Virginia

With the introduction of the first PCAOB auditing standards in mind, the Section's Education Committee has compiled [a set of instructional resources](#) on auditing standards, including those promulgated by the PCAOB and AICPA. We hope that these resources might increase the discussion among the Section's members about instructional materials and resources that other faculty find particularly effective in their own assurance and auditing classes.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Papers

Issues in Accounting Education

Special Edition:

The Impact of Sarbanes-Oxley and Recent Accounting Scandals on Accounting Education

The American Accounting Association requests submissions for a special edition of *Issues in Accounting Education* to be published in November 2006. The submissions must address some educational aspect of the Sarbanes-Oxley Act of 2002 (SOX) or the recent spate of accounting scandals. There are many ways educators could choose to address recent changes in accounting education resulting from SOX and the scandals.

Researchers could examine the impact of SOX and the accounting scandals on structural and programmatic aspects of accounting education, such as:

- graduate and undergraduate accounting programs and enrollments
- individual accounting courses (auditing, systems, intermediate, principles, etc.)
- the creation of new accounting courses (forensic accounting, ethics, etc.)
- accounting employer needs / interests
- faculty research and service, including interaction with the professional community
- student course projects.

For the topics above, preference will be given to papers documenting such effects across a range of institutions, as opposed to the impact at only one institution.

Another approach would be innovative educational materials (cases, assignments,

etc.) that would promote student learning about SOX and about the significance of the accounting scandals. Such materials may address:

- the incorporation of SOX-related materials in the accounting curriculum
- case-based learning related to SOX and accounting fraud
- experiential learning related to SOX and accounting fraud
- student research on SOX and accounting fraud.

In addition, thoughtful commentaries on the future direction of accounting education given the events of the past five years would be considered, as would historical and critical analyses of the events leading up to the enactment of SOX and the subsequent responses to it.

Professor Dana Hermanson of Kennesaw State University has agreed to serve as Guest Editor for the special issue with an expected publication date of November 2006. We would like to extend an invitation to accounting educators to submit articles for this issue.

Submissions should be sent to Sue Ravenscroft at Iowa State University. Submissions will be peer-reviewed with an emphasis on clarity and strength of ideas. The deadline for submissions is **February 28, 2006**. If you are submitting a paper for the special edition, please state that in your cover letter. All other submission procedures outlined in the journal will apply. Authors will be notified of editorial decisions in April 2006, and revised versions of the accepted papers must be completed by May 31, 2006.

Reviewers from the Auditing Section are needed to assist in processing the submitted manuscripts. The reviews will be on a fairly tight timeframe in March of 2006. If you are willing to review a paper for the special edition of *Issues*, please email Sue Ravenscroft (sueraven@iastate.edu) to express your interest.

[Back to Contents Page](#)



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Papers

11th Annual Ethics Research Symposium

**Hosted by the AAA's Professionalism & Ethics Committee
August 5–6, 2006 — Washington, D.C.**

The Professionalism and Ethics Committee of the American Accounting Association invites faculty and doctoral students to submit papers for presentation at the 11th Annual Ethics Research Symposium to be held on August 5-6, 2006 in Washington, D.C. The one and a half day Symposium will focus on all aspects of ethics research and teaching within the field of accounting.

Given the recent accounting scandals and the crisis of confidence in U.S. capital markets, interest in professional ethics is at an all time high. Accounting ethics research and education is at the center stage because the accounting profession's value added is to instill trust, faith and confidence in a market-based system. The current crisis has placed the accounting profession in the "eye of the storm" and it is in danger of losing its credibility permanently. As academics, we are not immune to these changes because an increasing number of market participants "including regulators" are asking (1) what we are doing in our classrooms to instill a sense of integrity in accounting students, (2) how we are training accounting students to reason in the face of moral dilemmas that they are likely to face in their professional lives, and (3) what we are doing through rigorous inquiry to understand the cause and effect between teaching accounting ethics and practice.

It has been 15 years since this committee offered its first seminar on teaching ethics in accounting programs. The 11th Annual Ethics Research Symposium will consider papers on all aspects of accounting ethics scholarship, both teaching and research. Sample topics may include, but are not limited to, the following:

- Accounting ethics vis-à-vis professional ethics
- Historical perspective on issues relating to accounting ethics
- Accountancy as an ethical profession
- Accounting ethics literature reviews
- Accounting ethics education approaches and methodologies, what works and what doesn't and why?
- Empirical studies relating to accounting ethics
- Application of philosophy and/or theology to accounting ethics
- Application of sociology, psychology, and/or cultural anthropology to accounting ethics and/or professionalism
- Conceptual papers analyzing what is necessary to advance accounting ethics education and/or accounting ethics research to the prominence enjoyed by mainstream teaching and research.

The Symposium will take place at the Hilton Washington D.C. as a Continuing Professional Education session, before the 2006 American Accounting Association Annual Meeting. The registration fee, the cost of which will be announced in the future, will be waived for doctoral students wishing to attend.

Papers for consideration for presentation at the Ethics Research Symposium should be emailed in an attachment (please identify all authors, their positions, and affiliations in the email but not in the paper.) We plan to have awards for (a) the best paper accepted for the Symposium and (b) the best paper accepted for the Symposium authored or co-authored by a doctoral student(s) only. A \$20 non-refundable submission fee applies to all authors including the doctoral students in addition to the regular registration fee for the Symposium. Please make all checks payable to the American Accounting Association. **Papers should be emailed and checks should be mailed at the following address no later than April 1, 2006:**

Parveen P. Gupta, Ph.D.
Magee Professor of Accounting
College of Business and Economics
Lehigh University
621 Taylor Street
Bethlehem, PA 18015
Phone: (610)758-3443
Email: ppg0@lehigh.edu

Currently, the following four journals are associated with the 11th Annual Ethics Research Symposium:

- *Accounting and the Public Interest*
- *Global Perspectives on Accounting Education*
- *Journal of Accounting and Public Policy*
- *Research on Professional Responsibility and Ethics in Accounting*

More journals may be added at a later date. Those presenting a paper at the Symposium may choose one of these four journals for submission of their paper. Authors who choose to designate a journal should contact that journal's editor to determine submission policies, including the timing of formal submission of the paper.

Please contact Parveen P. Gupta for additional information or clarification.

[Back to Contents Page](#)



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Papers

2006 International Symposium on Audit Research

www.isarhq.org

June 22–23, 2006 — Sydney, NSW, Australia

The 12th Annual International Symposium on Audit Research (ISAR) will be hosted by the School of Accounting, University of New South Wales and will be held on June 22 and 23, 2006 in Sydney, Australia. ISAR is jointly organized by the University of Southern California, Universiteit Maastricht, Nanyang Technological University, and the University of New South Wales. The symposium will be held at the Crowne Plaza Hotel, Coogee Beach, Sydney.

Scope of Topics

The scope of ISAR is intended to be broad and includes research papers and panels that deal with various aspects of auditing, attestation and assurance. Papers that utilize any of a broad range of research methodologies will be considered.

Submission of Papers

To be eligible for presentation, manuscripts must follow the style guidelines of *Auditing: A Journal of Practice & Theory*. Please pay particular attention to the format and length requirements - manuscripts should not exceed 7,000 words or approximately 18-25 double-spaced pages including tables, figures and references. Be sure to include in your paper the author(s) affiliation(s), the contact author's email address, an abstract and keywords. Accepted papers will not be published in formal proceedings and thus may be submitted to any appropriate journal.

Paper Submission Deadline and Requirements

Papers should be submitted electronically in Adobe Acrobat or Word formats. Papers

and, where appropriate, related research instruments must be received by **January 27, 2006** and should be sent to: papers@isarhq.org

Further Information

If you have questions about paper submission or early registration for the Symposium, please email to admin@isarhq.org

[Back to Contents Page](#)



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Papers

17th Symposium on Auditing Research

Office of Accounting Research
University of Illinois at Urbana-Champaign
September 28–30, 2006

The Seventeenth University of Illinois Symposium on Auditing Research will be held on the Urbana-Champaign campus during September 28–30, 2006. The symposium will be funded by the KPMG LLP Foundation. Authors of papers employing rigorous research methods (including exploratory methods when appropriate) are invited to submit papers. The scope of the symposium is broad, encompassing all aspects of auditing and assurance in all of their phases.

The Office of Accounting Research of the University of Illinois will publish a monograph that contains a synopsis of each paper presented and discussants' remarks. The intent is that such publication will not preclude authors from submitting completed papers to scholarly journals. Authors should follow *The Accounting Review* format and submit three double-spaced copies of the papers to:

Associate Professor Mark E. Peecher
Deloitte & Touche Teaching Fellow
17th Symposium on Auditing Research
Department of Accountancy
University of Illinois at Urbana-Champaign
1206 S. Sixth Street
Champaign, IL 61820

Submission deadline: **June 10, 2006.**

A separate cover sheet should contain the name and address of the author to whom correspondence should be addressed. If applicable, it also should indicate other symposia or conferences at which the submitted paper has been or will be presented.

Authors will be notified during July as to whether submissions have been accepted for presentation at the symposium. Questions about the symposium should be directed to Mark E. Peecher at (217) 333-4542 or via email at peecher@uiuc.edu.

[Back to Contents Page](#)



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Papers

Managerial Auditing Journal

Edited by:

Professor Philomena Leung
Deakin University, Australia

Professor Barry J. Cooper
RMIT University, Australia

The Editors would like to invite submissions for the twenty-first volume of *Managerial Auditing Journal (MAJ)*

The journal provides: a forum for those with a broad managerial and professional interest in auditing and accounting, to explore current practices, ideas and experience; a framework for explanation and guidance on developments and research; and perspectives on professional and career development. Papers accepted for publication are double blind-refereed to ensure academic rigour and integrity.

An innovation in *MAJ* is that provision is also made for a Practice Forum section on an occasional basis, to provide an opportunity for practitioner papers to be widely published. In this way, *MAJ* seeks to uniquely attempt to bring together thought leaders in both academia and practice, in their areas of common interest.

Topicality

Auditors, once employed for the express purpose of checking the accounts for fraudulent practice, have now developed a more supportive role, guiding and maintaining continual improvement. This new approach is reflected in *MAJ*, which takes its readers beyond traditional conventions and looks at the ways in which contemporary auditors are improving both managerial and organizational

performance.

Key Benefits

Managerial Auditing Journal presents a wide range of material with an emphasis on practical examples from expert researchers and practitioners, making it relevant to a broad readership. Its concentration on modern practice creates a useful forum for the development of new thinking and practice within the profession.

Key Journal Audiences

- Academics and researchers in the field
- Finance directors and accountants in commerce, industry and the government sector
- Accountants in public practice
- General managers
- Internal and external auditors
- Management consultants

The journal's wide coverage includes:

- Career and professional issues
- Communicating the results of audits
- Financial reporting and analyses
- Environmental auditing
- Ethical considerations
- Management theory and auditing practice
- Performance measurement
- Social reporting and auditing processes

SUBMISSIONS

Submissions should be emailed to the Editors at maj-admin@deakin.edu.au with the manuscript attached to the email as a MS WORD® file. Papers should be between 3,000 and 8,000 words in length and contain a structured abstract of up to 250 words and up to six keywords that encapsulate the principal subjects covered by the paper.

All papers will first be considered by the Editors for general relevance and significance. If accepted for review, papers will then be subject to double blind peer review.

Full author guidelines are available from <http://www.emeraldinsight.com/maj.htm>

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for CPE Course Proposals

Auditing Section Mid-year and AAA Annual Meetings

Anyone who wishes to provide a CPE session for either the mid-year meeting in Los Angeles in January or for the Annual meeting next summer in Washington, D. C., needs to contact Dr. Chuck Stanley, Baylor University, with their course proposal. In addition, anyone who has suggestions for possible CPE sessions at either meeting should provide Dr. Stanley with their suggestions, especially those involved with the Audit Section's other committees. We would like to be able to offer some very beneficial courses to our members. Approval for any course will be done in conjunction with the AAA.

To contact Dr. Stanley, send your suggestion by mail to Dr. Chuck Stanley, Baylor University, One Bear Place, #98002, Waco, Texas 76798 or email him at Charles_Stanley@baylor.edu.

[Back to Contents Page](#)



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Volunteers

Auditing Section Committees

Openings currently exist on the following Auditing Section committees:

Auditing Standards Committee

CPE Committee

Research Committee

Communications Committee

Education Committee

Membership and Regional Coordinators Committee

Notable Contributions to the Auditing Literature Award Selection
Committee

Outstanding Auditing Dissertation Selection Committee

2007 Annual Meeting Committee.

The Section typically receives a larger number of volunteers than there are openings, so, the more flexible you are as to your committee assignment, the better your chances of being appointed to a committee. If you are interested in serving on an Auditing Section committee, please contact Ray Whittington by **January 31, 2006**.

Ray Whittington

School of Accountancy

DePaul University

1 East Jackson Blvd.

Chicago, IL 60604-2287

312.362.6625 (phone)

312.362-6208 (fax)

rwhittin@depaul.edu



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Announcement and Calls for Papers and Volunteers

American Accounting Association 2006 Annual Meeting

August 6–9, 2006
Washington, DC

Please consider submitting a paper for Concurrent, New Scholar, or Research Forum sessions; a proposal for CPE sessions; and/or a special Panel session for presentation as an Auditing session at the AAA Annual Meeting. The meeting will be held in Washington, DC on August 6–9, 2006. There is a single deadline for submissions of **January 9, 2006**. There is no submission fee this year. Detailed information regarding submissions will be available on the AAA's website (<http://aaahq.org>) in the near future.

Also please consider volunteering to review two submitted papers. Papers will be assigned to reviewers by January 20, 2006 and reviews will be due by February 20, 2006.

Finally, please consider volunteering to be a moderator or discussant at an Auditing session. Preference will be given to those volunteers who also agree to serve as reviewers.

Check the AAA website, (<http://aaahq.org>), or watch for an email in mid to late October announcing the opening of the call for papers, reviewers, and volunteers. If you have any questions, please contact Julia Higgs (jhiggs@fau.edu).

Please make plans now to join us in Washington, DC next August! We hope to see you there!

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Call for Submissions

2006 AAA Innovation in Accounting Education

Award Intent

The award is intended to encourage innovation and improvement in accounting education. Further, it recognizes significant programmatic changes or a significant activity, concept, or set of materials. The winner may be an individual, a group of individuals, or an institution.

Award Criteria

The primary criteria used by the Selection Committee to judge submissions include:

- innovation;
- demonstrated educational benefits; and
- adaptability by other educational institutions or to other situations

Award Process

Application materials should include an executive summary of the activity, concept, or materials. It should also include a detailed statement explaining how (1) it is innovative, (2) has demonstrated educational benefits (i.e., evidence of the value of the educational innovation), and (3) can be adapted by other educational institutions or to other situations. Adequate materials must be submitted so that the evaluation committee can make an assessment on these three dimensions. All materials must be submitted by **January 14, 2006**. Electronic submissions are desired but not required.

Mailing Instructions

If you mail your application materials, send 9 copies to Paul Solomon, Colloquium on Change in Accounting Education, 165 Paramount Drive, Sedona, AZ 86336. If you send your application materials electronically, attach your materials in an email

message to Paul Solomon at cqm@esedona.net.

Award Presentation

The winner will be announced in the Accounting Education News. The award, a plaque and \$5,000 funded by the Ernst & Young Foundation, will be presented at the AAA Annual Meeting in Washington, D.C. on August 9, 2006.

Although publication is not a requirement for receiving the award, the award-winning innovation will be eligible for publication in *Issues in Accounting Education* as a scholarly article, subject to the normal manuscript review process and acceptance of the paper by the editor of the journal.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

RF-Barrett Dissertation Grant

The Institute of Internal Auditors (IIA)

To encourage internal audit studies by doctoral candidates, The Institute of Internal Auditors supports an ongoing Doctoral Dissertation Grant Program. This program provides funds to selected doctoral candidates interested in the field of internal auditing.

Suggestions for topics may be found on The IIA Research Foundation Web site. Each year, The Foundation announces new priorities and topics for future research opportunities. While these priorities indicate specific interest in possible research projects, doctoral candidates should not feel limited to the priorities. Grant applicants should submit dissertation subjects related to internal auditing to be considered for the grant program. See also Research Opportunities in Internal Auditing for more topics.

Any doctoral candidate pursuing an advanced post-graduate degree (such as Ph.D. or DBA) in auditing, accounting, or business from an accredited educational institution is eligible to apply for the doctoral dissertation grant. Applicants should submit their dissertation proposals along with a detailed cover letter to The IIA's Academic Relations Department. Applicants must also submit two letters of recommendation by professors directly supervising or connected with their dissertation efforts. Additional details regarding the application process can be found at www.theiia.org.

Individual grants vary from \$1,000 to \$10,000. The size of the grant is based on the amount considered necessary to allow the candidate to complete the dissertation within one year. The deadlines for submitting a grant proposal are May 15 and October 31 of each year. The Academic Relations Committee meets in June and December of each year to review proposals and select a worthy recipient. Recipients

are contacted immediately after the selection is made by the ARC.

Submit applications to:

Michael J. Barrett Doctoral Dissertation Grant
The Institute of Internal Auditors - Academic Relations Committee
247 Maitland Avenue
Altamonte Springs, FL 32701-4201
Tel: +1-407-937-1376
Fax: +1-407-937-1101
E-mail: academic@theiia.org

[Back to Contents Page](#)



Volume 29, No. 1
Fall 2005

THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Deloitte/University of Kansas Auditing Symposium XIX

The 2006 Deloitte/University of Kansas Auditing Symposium will be held at the University of Kansas in Lawrence, Kansas, April 28–29, 2006. The theme for the 2006 Symposium will be "SOX in 2006—What Have We Learned?" For additional information regarding the Symposium, contact Jim Heintz at jheintz@ku.edu or 785-864-4568.

[Back to Contents Page](#)



**Symposium on Information Systems Assurance
Integrity, Privacy, Security & Trust in an IT Context
October 20-22, 2005**

Intercontinental Hotel, 220 Bloor Street West, Toronto, Canada

Sponsored by the University of Waterloo, the Canadian Institute of Chartered Accountants, the Information Systems Audit and Control Association, and the *International Journal of Accounting Information Systems*

Preliminary Program Announcement

Thursday, Oct 20, 2005

7:00 – 10:00 pm Opening Reception,

Friday, Oct 21, 2005

Breakfast

8:30 – 9:00

Opening Remarks

Presenter: Alister Mason, Director School of Accountancy, University of Waterloo
William Swirsky, VP Knowledge Development, CICA and Chair, UWCISA

9:00 – 10:15

A Secure IT Infrastructure for e-Commerce

Presenter: Efrim Boritz, University of Waterloo
Discussant: Martin Gilbert, GoSecure Inc.

Engineering e-Business Applications for Security

Presenter: Sharon Hagi, IBM
Discussant: Gerald Trites, St. Francis Xavier University
Discussant: David Chan, MBS, Government of Ontario

Break

10:45 – 12:00

Market Reaction to E-Commerce Impairments Evidenced by Website Outages

Presenters: Severin Grabski, Michigan State University, Joseph H. Anthony, Michigan State University and Wooseok Choi, California State University
Discussant: Vernon Richardson, University of Arkansas
Discussant: Nicholas Mensah, Ernst & Young

Lunch

1:00 – 3:00

“XBRL at 6”

Presenters: Glen Gray, California State University
William McCarthy, Michigan State University
Daniel Roberts, Grant Thornton
Mike Willis, PricewaterhouseCoopers

Break

3:30 – 4:30

Modeling an Intelligent Continuous Authentication System to Protect Financial Information Resources

Presenters: Thomas Calderon, Akhilesh Chandra, and John Cheh, University of Akron
Discussant: R. Sundarraj, University of Waterloo
Discussant: James Gaston, Protiviti

4:30 – 5:30

Implementing Continuous Auditing of Business Process Controls

Presenters: Miklos Vasarhelyi, Michael Alles, and Alexander Kogan, Rutgers Business School
Discussant: TBA
Discussant: Clyde Rogers, CIBC

7:00 -

Banquet Location TBA

Saturday October 22, 2005

Breakfast 8:00 – 8:30

8:30 – 10:30

**Documenting Business Processes and Controls:
Principles of Business Process Documentation**

Presenter: Carla Carnaghan, University of Waterloo

Discussant: TBA

Discussant: Robert Rowe, KPMG

Demonstration of Sunlife's Business Process Documentation Approach

Presenter: Tom Crouch, Sunlife Financial

Break

11:00 – 11:30

Comparative Analysis of IT Control Frameworks for SOX

Presenter: Malik Datardina, University of Waterloo

11:30 – 12:00

Review of Research on Online Privacy

Presenter: Won No, University of Waterloo

Lunch

1:00 – 2:15

The Influence of Content and Timing of Reliability Assurance in B2B E-Commerce

Presenters: Elaine Mauldin, University of Missouri, Andreas Nicolaou, Bowling Green State University and Stacy Kovar, Kansas State University

Discussant: Ed O'Donnell, Arizona State University

Discussant: Robert Parker, Deloitte

2:15 – 4:15

Cases:

Due Diligence on Fast-Fashion Inventory Through Data Querying

Presenters: Faye Borthick, Georgia State University and Mary Curtis, University of North Texas

Discussant: David Bateman, St. Mary's University

Discussant: Bob Cuthbertson, Caseware

SportsStuff.com – Reporting Financial Performance in XBRL with Assurance

Presenters: Roger Debreceeny, University of Hawai'i and Skip White, University of Delaware

Discussant: Uday Murthy, University of Southern Florida

Discussant: Eric Cohen, PricewaterhouseCoopers

Continued on back...



Symposium on Information Systems Assurance

October 20-22, 2005

Integrity, Privacy, Security & Trust in an IT Context

Registration Form

The Symposium will take place in Toronto at the Intercontinental Hotel, 220 Bloor Street West. There is no on-site registration - all participants (except invited presenters) must pre-register and pay the registration fee of \$US 250.00 / \$CDN 300.00 (payable to University of Waterloo). This fee covers all conference materials, reception on Thursday, breakfast, lunch and banquet on Friday, breakfast and lunch on Saturday, and all refreshment breaks.

Our symposia are recognized for the extensive interaction between practitioners and academics. To encourage such interaction, the size of the symposium is limited, so please register early to save your spot and avoid disappointment.

Upon receipt of your registration, we will forward hotel registration information and other details.

Name: _____

Affiliation: _____

Postal Address: _____

Email: _____

Tel: _____

For further information please contact:

J. Efrim Boritz (519) 888-4567 (ext. 5774) or Jenny Thompson (519) 888-4567 (ext. 2770)

Remit completed form with payment to:

Professor J. Efrim Boritz, Director, Center for Information Systems Assurance,
School of Accountancy, University of Waterloo, 200 University Ave. West,
Waterloo, Ontario Canada N2L 3G1

Tel: (519) 888-4567 (ext. 5774)

Fax: (519) 888-7562

Email: jeboritz@uwaterloo.ca

If you wish to pay via Paypal, please contact jeboritz@uwaterloo.ca