



THE AUDITOR'S REPORT

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Fall 2006

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Report of the President

Ray Whittington



I am very excited about the opportunity to serve as the Auditing Section's President for 2006-2007. I plan to work hard to continue to move the section forward in the tradition of the many outstanding individuals who have led the Section in the past.

The immediate prior leadership of the Section has made tremendous strides in revitalizing the Section's agenda. Under the leadership of Mark Beasley, Linda McDaniel, and Jean Bedard, the Section has undertaken a host of important initiatives that clearly provide significant value to the auditing profession and many opportunities for the membership. Most of these initiatives are continuing and will be highlighted later in this report. I also want to acknowledge the contributions of the other members of the Executive Committee, especially our outgoing officers, Kay Tatum, Secretary, and Scott Showalter, Vice President—Practice. Both worked diligently on behalf of the Section and will certainly be missed. Luckily, we have outstanding replacements, including Julia Higgs, Secretary; Mark Peecher, Vice President—Academic; and Trevor Stewart, Vice President—Practice. Please feel free to contact any of the members of the Executive Committee regarding ways we can improve the Section or its value to the membership.

President

Ray Whittington, DePaul University
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Past President

Mark Beasley, NC State University
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INSIDE

Features

[Auditing Section
Officer Election](#)

[2007 Auditing
Midyear Meeting](#)

[2007 Auditing
Doctoral Consortium](#)

[ASB Update](#)

[GAO Update](#)

[PCAOB
Standards-Setting
Update](#)

[Activities of the
Professional Practice
Group in the SEC's OCA](#)

[AICPA Paper on
Forensic Accounting](#)

[Have You Seen...?](#)

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

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2006 Annual Meeting

The 2006 Annual Meeting was another big success for both the organization as a whole and the Auditing Section. The Section is indebted to Julia Higgs and Christine Earley who did a fantastic job at coordinating the Auditing Section program. We had a total of 133 papers submitted for consideration for the meeting. Of these, 66 were presented in a total of 23 Auditing Section concurrent sessions (another record number!), 35 papers were presented in the Research Forum, and 6 were selected for the New Scholars Forum. I would like to thank the many Section members who served as reviewers, moderators and discussants for the meeting. It is the many volunteers that make these programs work.

The Section also sponsored five panels at the annual meeting, including:

- SOX Section 404: Should small companies have to comply?
- SOX Section 404: A two-year retrospective
- PCAOB Monitoring Function
- Overview of the New Risk Assessment Standards: Implications for Teaching and Research
- Teaching Corporate Governance

I want to offer my thanks to the many people who developed and served on these informative panels.



At the Section luncheon, Jeanette Franzel, Director, Financial Management and Assurance for the U.S. Government Accountability Office, gave an excellent presentation on the U.S. fiscal crisis. Personally, I was glad my children were not there to find out the bill that we are

Calls and Announcements

[13th Annual International Symposium on Audit Research](#)

[2007 Illinois International Accounting Symposium](#)

[PDF Version of Newsletter \(for printing\)](#)

[Auditing Home Page](#)

Spring 2007 Issue Deadline

The deadline for material to be included in the Spring 2007 issue of *The Auditor's Report* is January 30, 2007. 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, 2007 to ensure timely publication of the issue:

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

leaving with their generation! We were also privileged to have [John Willingham's wife, Carol](#), and their son and his family in attendance to accept a special award to John on behalf of the Section. In making the presentation, Mark Beasley spoke of John's many contributions to auditing education, and [Bob Elliott](#) spoke of his many contributions to KPMG and the profession.



At the Opening Plenary Session, [Bernie Milano](#) received a Special Recognition Award from the American Institute of Certified Public Accountants for his work with the KPMG Foundation's Ph.D. Project. Congratulations to my personal friend and good friend of the Auditing Section, Bernie Milano!

Update on Online Journal

The Auditing Section's online journal was approved by AAA Executive Committee with a scope that would be limited to audit issues. The journal (working titled Current Issues in Auditing Practice) will be devoted to advancing the dialogue between academics and practitioners on current issues facing the auditing practice community. It will also publish practice cases that are suitable for classroom use. Dana Hermanson and Scott Showalter have agreed to co-edit the journal, which we hope to launch by the first quarter of 2007.

Working with Standards Setters

Building on the foundation established under the leadership of Jean Bedard, Linda McDaniel, and Mark Beasley, the Section is continuing its relationship with the PCAOB. In the spring, the PCAOB will be sponsoring a conference to bring together its staff and selected auditing academics to focus on issues of interest to the PCAOB. This year we will focus on the research related to fraud, risk assessment, and quality control. We will also have a discussion of the implications of academic research bearing on the cost-benefit of SOX, section 404, Auditing Standards No. 2, and the PCAOB. A closing panel will examine the issue of the competencies of future auditors and how they can be developed.

The Section is working with the AICPA's Auditing Standards Board (ASB) and the International Auditing and Assurance Standards Board (IAASB) to generate research proposals related to the auditor's standard report. Specifically, these standard setting bodies are interested in whether financial statement users understand the intended communications contained in the report. Details of the request for proposal are presented on the Section's Web site.

KPMG Continues its Generous Support

I would like to acknowledge the generous support of the KPMG

Foundation, which has committed to extend its financial support for the Section's Mid-Year Conference and Auditing Section Doctorial Consortium for 2007, 2008, and 2009. This support is critical to ensuring the success of the Section. Thanks to KPMG and [Bernie Milano](#) for this vote of confidence in the Section.

Charleston in 2007

Mark your calendars for the 2007 Auditing Section Mid-Year Conference to be held January 12-13, 2007 in Charleston, South Carolina. Our meeting will be held at the Francis Marion Hotel.

I look forward to seeing you in Charleston.



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Thirteenth Annual Midyear Auditing Section Conference

Registration is now open for the 13th Annual Auditing Midyear Conference (AMC) to be held in Charleston, South Carolina on January 11-13, 2007. The Conference will be held at the historic Francis Marion Hotel, which is located within walking distance of Charleston's historic and shopping districts.

The KPMG Foundation is generously sponsoring the Midyear Conference. The meeting format will be similar to previous years and 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.

The program is shaping up to include many interesting events. After a two-year absence, the program will again include a CPE session on Thursday afternoon. Parveen Gupta (SEC Academic Fellow) and Dave Richards (Institute of Internal Auditors President) will conduct the session titled "Guidance for Section 404 Assessments." On Friday, the main plenary session will feature an update on recent activities at the PCAOB by board member Bill Gradison. Saturday morning's opening plenary session will feature Mr. Damon Silvers, Associate General Counsel for the AFL/CIO and member of the PCAOB's Standing Advisory Group. Mr. Silvers will focus on the PCAOB's activities from the perspective of companies who are required to comply with these regulations. The conference also will include panel sessions by the Auditing Section's Education Committee, Research Committee, Standards Committee, and the Practice Advisory Council.

The 8th annual Auditing Section Doctoral Consortium will be January 11th, 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 (50), so students are advised to register early. Applicants will be accepted on a first-come basis. For further information on the application process, please see The Auditor's Report (Fall 2006) and the section's website.

Conference information and registration are now available online at:
http://aaahq.org/meetings/2007AUD_regis.htm.

Make plans now to join us in Charleston next January!

Karla Johnstone and Terry Neal
2007 Auditing Midyear Conference Co-Chairs

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

2007 Auditing Doctoral Consortium Program

Thursday, January 11, 2007 — Charleston, South Carolina

The Auditing Section of the American Accounting Association, through the generous support of KPMG LLP, is sponsoring the seventh annual Auditing Section Doctoral Consortium on January 11, 2007. The Consortium will be held in Francis Marion Hotel in Charleston, South Carolina in conjunction with the Auditing Section's Mid-Year Conference (to be held January 11–13, 2007). 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 may attend from any one university. However, there is a limit on the total number of students who can attend the Consortium (50), and applicants will be accepted on a first-come basis. You are advised to register early. 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 is free. Any student wishing to attend must complete the registration process. For those students who would like to attend the Auditing Section Midyear Meeting (January 11–13) that follows the Consortium (January 11), the midyear meeting registration fee is \$25. The deadline for consortium and conference registration is December 11. Additional Consortium and Midyear Meeting registration information is available at the Auditing Section home page at <http://aaahq.org/audit/index.htm>.

Students who attend the Auditing Section Doctoral Consortium are eligible to receive either (i) a complimentary one night, single-occupancy accommodation at Francis Marion Hotel in Charleston, South Carolina for Wednesday night (January 10) or (ii) a two night, double-occupancy accommodation at The Francis Marion Hotel for Wednesday and Thursday night (January 10-11). Students will be reimbursed AFTER attending the doctoral consortium providing they attend the consortium for the full day and stay at the conference hotel. A maximum of two students per hotel room is allowed. Students should make their reservations directly with the hotel and will need to provide a credit card number to the hotel. The deadline for hotel reservations is December 11. Additional hotel and hotel registration information including how to select single vs. double occupancy

is available at the Auditing Section home page at <http://aaahq.org/audit/index.htm>.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

ASB Update as of September 30, 2006

**Douglas F. Prawitt, Brigham Young University
Academic Member of the AICPA Auditing Standards Board**

I'll begin this update with an item of special interest to members of the Auditing Section. In August 2006 the ASB, together with the International Auditing and Assurance Standards Board and the American Accounting Association, launched a research initiative to gain a better understanding of users' perceptions of the financial statement audit and the auditor's report. The ASB has a project underway to revise the standard auditor's report and is seeking input and insight through research, so this is a unique opportunity to participate in research that could have a direct bearing on the standard-setting process. The first phase of the research initiative is intended to identify misconceptions that users commonly might have regarding an unqualified auditor's report. A second phase of the initiative will explore ways in which the auditor's report might be revised to address identified user misconceptions and more clearly communicate the intended message. The ASB is soliciting proposals for research from members of the Auditing Section and others with an interest in participating. Selected proposals will be eligible for funding in the range of \$10,000 to \$20,000.

Please note that the deadline for research proposals has been extended to October 31, 2006.

Proposals should be submitted to Sharon Walker, Technical Manager, Audit and Attest Standards, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775. The Request for Proposals may be downloaded from the AICPA Web site: <http://www.aicpa.org/news/>

[Request for Research Proposal.htm](http://www.aicpa.org/news/Request_for_Research_Proposal.htm)

The Board likely soon will vote on the Proposed SAS relating to *Communications with Those Charged with Governance*, replacing SAS No. 61. The proposed SAS establishes a requirement for the auditor to communicate with those charged with governance certain significant matters related to the audit and identifies specific matters to be communicated, most of which are consistent with the requirements of SAS 61. It also provides guidance on the communication process and, of course, uses the new phrase "those charged with governance," consistent with SAS No. 103.

Since my last update, the ASB issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard supersedes SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*. The new SAS incorporates the definitions of the terms *control deficiency* and *material weakness* used in PCAOB Auditing Standard No. 2, and replaces the term *reportable condition* with the term *significant deficiency* and its related definition in PCAOB Auditing Standard No. 2. It requires the auditor to communicate, in writing, to management and those charged with governance significant deficiencies and material weaknesses in internal control.

In my last report I indicated that a major part of the ASB's focus over the next several months would be on the exposure draft of a proposed SSAE titled *Reporting on an Entity's Internal Control over Financial Reporting*. The ED, issued in January 2006, proposes to revise existing standards regarding attestation engagements that involve reporting to third parties about a client's internal control (AT 501) to reflect concepts and terminology from PCAOB Auditing Standard No. 2. However, the PCAOB has since undertaken a project to revise Auditing Standard No. 2, including plans to revisit the definitions of significant deficiency and material weakness. As a result, the ASB decided to defer completion of the AT 501 revision until after the PCAOB has issued its revision of Auditing Standard No. 2. To avoid confusion stemming from differences in terminology, the Board made conforming revisions to AT 501 to incorporate the new terms, definitions, and guidance on identifying and evaluating control deficiencies that were introduced in SAS No. 112. The conforming changes make terminology and definitions consistent between the two standards and also enhance consistency with current PCAOB standards. The following conforming changes have been made to AT 501 to bring it into conformity with corresponding aspects of SAS No. 112:

- Deleting the term "reportable condition" and its definition and replacing the definition of the term "material weakness."
- Introducing the terms "control deficiency" and "significant deficiency" and their related definitions and replacing the guidance on evaluating control deficiencies with the relevant guidance from SAS No. 112.
- Replacing the term "audit committee" with the term "those charged with governance" (defined in SAS No. 103, Audit Documentation) to describe the party to whom the practitioner must communicate significant deficiencies and material weaknesses.
- Identifying areas in which a control deficiency ordinarily is at least a significant deficiency in internal control as well as identifying indicators of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.
- Requiring the practitioner to communicate to management and those charged with governance, in writing, significant deficiencies and material weaknesses.

To coincide with SAS No. 112's effective date, these conforming changes are effective for periods ending on or after December 15, 2006. The conforming changes to AT 501 can be accessed from the following Web site:

http://www.aicpa.org/members/div/auditstd/exec_summary_conform_amend.htm

The board has agenda items relating to a number of other topics, including development of conventions to enhance the clarity of auditing standards, related parties, quality control, and accounting estimates, among others. A complete list can be found on the AICPA Web site. I will cover these items in future updates as the projects mature.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

GAO UPDATE

The Bottom Line: The Nation's Fiscal Policy Remains Unsustainable By Jeanette Franzel and Maxine Hattery

On September 15, 2006, GAO issued its updated long-term fiscal simulations. GAO's simulations continue to show ever-larger deficits resulting in a federal debt burden that ultimately spirals out of control. The timing of deficits and the resulting debt build up varies depending on the assumptions used, but under either optimistic or more realistic assumptions, current fiscal policy is unsustainable.

Over the next few decades, the nation's fiscal outlook will be shaped largely by demographics and health care costs. As the baby boom generation retires, federal spending on retirement and health programs—Social Security, Medicare, and Medicaid—will grow dramatically. A range of other federal fiscal commitments, some explicit and some representing implicit public expectations, also bind the nation's fiscal future. Absent policy change, a growing imbalance between expected federal spending and tax revenues will mean escalating and ultimately unsustainable federal deficits and debt.

Comptroller General David Walker is delivering this message in a series of town hall forums around the nation. In his talks on the Fiscal Wake-Up Tour, Walker discusses the country's financial condition and growing long-term fiscal imbalances and various issues raised in GAO's [21st Century Challenges](#) report (GAO-05-325SP, February 2005).

The town hall forums are sponsored by a broad coalition, including GAO, the Concord Coalition, AARP, the Committee for Economic Development, the Heritage Foundation, and the Brookings Institution, with the backing of state, local, and federal government officials. Before each event the Concord Coalition sends out an alert to the local media, and an email to list subscribers. If you are interested in attending, you can subscribe to the e-mail list at <http://www.concordcoalition.org/email-signup.html>.

At the 2006 AAA Annual Meeting, members of the Auditing Section viewed a DVD produced by GAO, in which Comptroller General Walker delivered a brief but alarming version of this message. The DVD was distributed to the state treasurers across the United States. GAO anticipates making a version of the DVD available to the public on GAO's Web site in early October under the long-term fiscal outlook section at <http://www.gao.gov/special.pubs/longterm/>.

GAO updates its long-term fiscal simulations three times a year as new estimates become available

from CBO's Budget and Economic Outlook (January), Social Security and Medicare Trustees Reports (early spring), and CBO's Budget and Economic Outlook: An Update (late summer).

GAO's September 2006 update and additional information about GAO's work in this area can be found at <http://www.gao.gov/special.pubs/longterm/>. Additional information about the Comptroller General Walker's speeches and related activities can be found at <http://www.gao.gov/cghome.htm>.

For more information about GAO's long-term budget simulations, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov

The 2006 Yellow Book Getting Its Final Polishing Touches

On June 9, 2006, GAO issued an exposure draft of [Government Auditing Standards, 2006 Revision](#) (GAO-06-729G, June 2006). Comments were due on August 15, 2006. GAO staff are currently analyzing comment letters from 117 commenters, with over 2,000 individual comments.

Government Auditing Standards (the "Yellow Book") contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations. They are widely used in audits of federal, state, and local government programs, as well as in audits of entities receiving federal assistance. They have also been adopted by many countries around the world.

Government auditing standards provide a framework to auditors so that their work can lead to improved government management, decision making, oversight, and accountability. The standards also provide an overall framework for ensuring that auditors have the competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work.

The Comptroller General's Advisory Council on Government Auditing Standards is scheduled to meet on November 17, 2006, to review the staff's analysis of comments and the proposed 2006 revision of Government Auditing Standards. The Advisory Council includes experts in financial and performance auditing drawn from all levels of government, private enterprise, public accounting, and academia. The meeting is open to the public. If you are interested in attending the meeting, please contact Jennifer Allison at (202) 512-3423 or allisonj@gao.gov.

The final 2006 revision of the Yellow Book is expected to be released in December 2006, becoming effective July 1, 2007. For more information, contact Jeanette Franzel at (202) 512-9471 or franzelj@gao.gov; or Michael Hrapsky at (202) 512-9535 or hrapskym@gao.gov. Questions and inquiries are also welcome at yellowbook@gao.gov.

Selected GAO Financial Management and Accounting Profession Reports

In addition to its auditing of individual federal agencies and programs, GAO reports to Congress and the nation on issues of broad significance, including the implementation of the Sarbanes-Oxley and other public-company auditing reform and fallout from fraudulent practices involved in the response to hurricanes Katrina and Rita and the concomitant need for accountability in a crisis environment. Below are links to selected GAO reports.

Internal Control: Analysis of Joint Study on Estimating the Costs and Benefits of Rendering Opinions on Internal Control over Financial Reporting in the Federal Environment. [GAO-06-255R](#) September 6, 2006

[[Abstract](#) | [PDF](#) | [Accessible Text](#)]

Sarbanes-Oxley Act: Consideration of Key Principles Needed in Addressing Implementation for Smaller Public Companies. [GAO-06-361](#) April 13, 2006

[[Abstract](#) | [Highlights-PDF](#) | [PDF](#) | [Accessible Text](#)]

Financial Restatements: Update of Public Company Trends, Market Impacts, and Regulatory Enforcement Activities. [GAO-06-678](#) July 24, 2006

[[Abstract](#) | [Highlights-PDF](#) | [PDF](#) | [Accessible Text](#)]

Financial Restatement Database. [GAO-06-1053R](#) August 31, 2006

[[Abstract](#) | [PDF](#) | [Accessible Text](#)]

Financial Restatement Database. [GAO-06-1079SP](#) August 31, 2006

[[Abstract](#)]

United Nations: Oil for Food Program Provides Lessons for Future Sanctions and Ongoing Reform. [GAO-06-711T](#) May 2, 2006

[[Abstract](#) | [Highlights-PDF](#) | [PDF](#) | [Accessible Text](#)]

Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse. [GAO-06-655](#) June 16, 2006

[[Abstract](#) | [Highlights-PDF](#) | [PDF](#) | [Accessible Text](#)]

Hurricanes Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between \$600 Million and \$1.4 Billion. [GAO-06-844T](#) June 14, 2006

[[Abstract](#) | [Highlights-PDF](#) | [PDF](#) | [Accessible Text](#)]

Improper Payments: Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs. [GAO-06-347](#) April 14, 2006

[[Abstract](#) | [Highlights-PDF](#) | [PDF](#) | [Accessible Text](#)]

Financial Management: Challenges Continue in Meeting Requirements of the Improper Payments Information Act. [GAO-06-581T](#) April 5, 2006

[[Abstract](#) | [Highlights-PDF](#) | [PDF](#) | [Accessible Text](#)]

Fiscal Year 2005 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Financial Condition and Long-term Fiscal Imbalance. [GAO-06-406T](#) March 1, 2006

[\[Abstract](#) | [Highlights-PDF](#) | [PDF](#) | [Accessible Text\]](#)

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[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

PCAOB Update¹

Prepared for *The Auditor's Report* (Fall 2006)

By Gary Holstrum* and Thomas Ray**

This update addresses selected PCAOB developments since the [Summer 2006](#) update that are likely to be of interest to accounting and auditing researchers, educators, and students. These include developments related to PCAOB Registration and Inspections, audits of internal control, audits of small businesses by small firms, other standards-setting activities, and alternatives for measuring PCAOB success.

Registration and Inspections. As the PCAOB is in its fourth year, having started operations in early 2003, the number of registered firms has currently leveled off at approximately 1700. About 40% of these have no public company clients and are, therefore, not subject to regular inspections, and about 40% are foreign firms.

Since inception, the PCAOB has completed more than 400 domestic inspections and issued more than 350 inspection reports, which are available on the PCAOB web site (www.pcaobus.org).

Inspection reports have identified relatively frequent auditing problems related to the following areas:

- Revenues
- Expenses
- Estimates
- Contractual arrangements
- Equity transactions
- Inventory
- Going concern
- Internal control
- Principal auditor
- Concurring partner
- Independence

Audits of Internal Control. Following the May 20, 2006, SEC-PCAOB Roundtable on second-year issues related to implementing the internal control reporting provisions of the Sarbanes-Oxley Act, the PCAOB announced a four-point plan to improve auditors' implementation of the internal control

reporting provisions. The four-point plan includes:

1. Amending/refining Auditing Standard No. 2 (AS 2)
2. Reinforcing auditor efficiency through PCAOB inspections
3. Developing or facilitating the development of guidance and education for auditors of small companies
4. Continuing PCAOB Forums on Auditing in the Small Business Environment

Possible Amendments to AS2 include:

- Incorporating key concepts from the guidance previously issued in May 16, 2005, in the form of a [Board Policy Statement](#) and [Staff Q&As](#) (38-55)
- Revisiting auditor evaluation of management's assessment of internal control
- Clarifying certain definitions in AS2
- Reconsidering "strong indicators" of a material weakness described in AS2
- Clarifying the use of work of others
- Clarifying materiality and scoping decisions
- Allowing for use of experience gained in prior years

While the PCAOB is developing further guidance for auditors of management reports on internal control over financial reporting, the SEC is developing further guidance for management to use in its reporting on internal control, and COSO has issued additional guidance for applying the criteria for reporting on internal control over financial reporting in smaller companies. On July 11, 2006, the SEC issued "Concept Release Concerning Management's Reports on Internal Control over Financial Reporting," [[Release No. 34-54122](#); [File No. S7-11 -06](#)], which discusses the proposed concepts it plans to use in developing further guidance for management on reporting on internal control. In addition, in June 2006, COSO issued [Internal Control over Financial Reporting—Guidance for Smaller Public Companies](#), which neither replaces nor modifies the basic COSO "Framework" commonly used as criteria for reporting on internal control over financial reporting, but rather provides guidance on how the "Framework" might be applied in smaller public companies.

Consideration of Small Firms and Audits of Small Businesses. The PCAOB is working to facilitate the development of additional non-authoritative guidance concerning key issues related to audits of internal control over financial reporting for smaller public companies. For example, some key issues that potentially could be addressed include obtaining sufficient competent evidence of internal control effectiveness in less documented environments and evaluating the adequacy of segregation of duties in small companies for which the small number of staff makes adequate segregation of duties especially challenging.

The PCAOB also devoted a session at the October 2006 meeting of its Standing Advisory Group (SAG) to issues related to regional and local registered firms and audits of small businesses (other than issues related to reporting on internal control). The PCAOB web site contains an [audio webcast](#) of the SAG discussion and a [briefing paper](#) identifying some of the key issues. The PCAOB also is continuing to hold a number [Forums on Auditing in the Small Business Environment](#) at various locations throughout the nation, designed to help registered accounting firms and public companies in the small business community learn more about the work of the Board, specifically the PCAOB inspections process and the impact of new auditing standards.

Audit Practice Alert and Staff Q&As on Stock Option Grants. On July 28, 2006, the PCAOB Staff issued "[Audit Practice Alert No. 1, Matters Related to Timing and Accounting for Option Grants](#)." This is the first in what is expected to be a series of Audit Practice Alerts, which are designed to highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws. Audit Practice Alert No. 1 advises auditors that some issuers' practices related to stock options grants may have audit implications and discusses factors that may be relevant to assessing the risks relating to those matters based on existing accounting, auditing, and legal requirements.

In the near future, the PCAOB Staff plans to issue Staff Q&As on auditing the FAS 123R fair value measurements associated with stock compensation. When issued, these Staff Q&As will be available on the PCAOB Web site.

[Staff Q&As on Adjustments to Prior-Period Financial Statements Audited by a Predecessor Auditor](#). On June 9, 2006, PCAOB Staff issued 11 Q&As that address situations in which adjustments are made to prior-period financial statements when there has been a change of auditors. These Q&As provide the staff's views on auditing of the adjustments by the predecessor auditor or the successor auditor and includes guidance on related reporting considerations.

[Standards-Setting Priorities](#). At the October 2006 SAG meeting, Chief Auditor, Tom Ray, presented to the SAG for discussion the [Board's standards-setting priorities](#). The priorities included, but are not necessarily limited to, the items listed below, which are subject to change based on emerging issues:

- AS2 Revision
- Principles of Reporting (to address FASB No. 154 and the GAAP hierarchy)
- Engagement Quality Review
- Risk Assessment, including fraud risk assessment
- Related Parties (including consideration of fraud risk factors)
- Confirmations (including consideration of fraud risk factors)
- Specialists (including how specialists are used in fair value measurements)

The Auditing Section's Research Synthesis Program, which has been discussed in several previous PCAOB Update articles, addressed most of these standards projects. All nine Research Synthesis Teams assembled by the Auditing Section Executive Committee have either completed or are nearing completion of their respective synthesis reports. The nine Research Synthesis teams are shown below, along with hyperlinks to the corresponding PCAOB Briefing Papers containing discussion questions addressed by the synthesis projects:

- [Auditor risk assessments](#)
- [Audits of fair value](#)
- [Audit confirmations](#)
- [Audit firm quality control](#)
- [Audit reporting model](#)
- [Auditing related party transactions](#)
- [Communications with audit committees](#)
- [Engagement quality review](#)

- [Financial fraud](#)

PCAOB strategic planning—measuring PCAOB success. A significant portion of the October 2006 meeting of the SAG was devoted to PCAOB strategic planning issues, with emphasis on possible future methods of measuring the level of PCAOB success. The Briefing Paper developed for this session discusses issues related to measuring success including the following three broad potential measures of PCAOB success and possible specific metrics related to each:

1. High investor confidence in the auditing profession, as indicated by increased reliance on audit reports and strong confidence in audit quality,
2. Less involvement by auditors in financial scandals than in the past (or in the alternative, greater frequency with which auditors directly detected or prevented financial scandals from occurring) and
3. Stability in the business model of the accounting profession (e.g., lack of volatility in the profession, no large firms on the edge of failure, ability to attract needed talent, absence of artificial barriers to market competition.

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

**Thomas Ray is PCAOB Chief Auditor and Director of Professional Standards.

¹Note the hyperlinks to the PCAOB Web site (www.pcaobus.org) and to the [Auditing Section Web site](#). A convenient history of PCAOB standards-setting activity and related briefing papers are available through the hyperlinked previous PCAOB Standards-Setting Update articles in the [Spring 2005](#), [Summer 2005](#), [Fall 2005](#), [Spring 2006](#), and [Summer 2006](#) issues of *The Auditor's Report*. 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

Activities of the Professional Practice Group in the SEC's Office of the Chief Accountant

**Brian T. Croteau, Associate Chief Accountant,
Office of the Chief Accountant of the SEC**

**Audrey A. Gramling, Kennesaw State University,
Chair of the Auditing Section's Auditing Standards Committee**

This column is intended to provide a brief summary of some of the current activities of the *Professional Practice* group in the U.S. Securities and Exchange Commission's Office of the Chief Accountant (OCA).

The Office of the Chief Accountant is organized into three complimentary groups: *Accounting*, *Professional Practice*, and *International Affairs*. These groups collaboratively serve as the principal adviser to the Commission on accounting and auditing matters. See the Spring 2006 issue of The Auditor's Report for background information on these groups and their activities (<http://aaahq.org/audit/Pubs/Audrep/06spring/item06.htm>).

This update focuses on some of the recent activities in OCA including: (1) hiring of new personnel; (2) consideration of matters related to internal control reporting; and (3) matters related to oversight of the Public Company Accounting Oversight Board (PCAOB). This report highlights current activities and provides relevant links that provide additional detail.

OCA Welcomes New Personnel

In July 2006 Chairman Cox announced the appointment of Conrad Hewitt as the Commission's Chief Accountant (<http://www.sec.gov/news/press/2006/2006-122.htm>). Hewitt replaces Don Nicolaisen, who left the Commission in November 2005. (<http://www.sec.gov/news/press/2005-127.htm>)

In August 2006 OCA welcomed Dr. Zoe-Vonna Palmrose as the SEC Deputy Chief Accountant for Professional Practice. (<http://www.sec.gov/news/press/2006/2006-131.htm>)

Palmrose replaces Andrew Bailey who left the Commission in December 2005. (<http://www.sec.gov/news/press/2005-159.htm>)

In July, the Commission announced that David Plumlee, Marlene Plumlee, and Tom Noland were named as the new Academic Fellows in the SEC's Office of the Chief Accountant. These new Academic Fellows replace Mark Taylor, who returned to Creighton University in Omaha, Neb., Teri Yohn, who recently accepted a faculty position at the University of Massachusetts, Amherst, and Cheryl Linthicum, who returned to the University of Texas, San Antonio (<http://www.sec.gov/news/press/2006/2006-115.htm>). David will primarily be working with the Professional Practice group, Marleen with the Accounting group, and Tom with the International Affairs group.

Internal Control Reporting

Internal control reporting in accordance with SOX Section 404 has been the focus of much recent activity. In May 2006 a roundtable on the topic was held in order for the SEC and the PCAOB to obtain insights on second-year experiences with the implementation of internal control reporting and auditing provisions.

Feedback from participants in the May 10, 2006 SEC and PCAOB sponsored roundtable and comment letters suggest that improvements were realized in year two (e.g. benefits to integrating procedures/controls into everyday processes and reduced costs); however, concerns were expressed in a number of areas including ongoing costs, scalability of the assessment process to smaller companies, excessive/duplicative testing, and excessive amounts of documentation.

Detailed information on the roundtable, including an archived webcast, can be found at <http://www.sec.gov/spotlight/soxcomp.htm>.

In response to the feedback received in connection with the Roundtable, the SEC announced actions the Commission is planning to take in moving forward in the area of internal control reporting (<http://www.sec.gov/news/press/2006/2006-75.htm>). The actions include issuing internal control reporting guidance for issuers, working with the PCAOB to revise AS No. 2, inspecting the PCAOB's operations, including its inspection program, as part of the Commission's oversight of the PCAOB, and further extending compliance dates for smaller public companies.

In conjunction with issuing internal control reporting guidance, the Commission issued a Concept Release soliciting public comment related to the type of guidance management would like from the SEC (<http://www.sec.gov/news/press/2006/2006-112.htm>). The comment period closed September 18; submitted comment letters can be viewed at <http://www.sec.gov/comments/s7-11-06/s71106.shtml>.

On August 9 the Commission issued two releases related to SOX Section 404 compliance dates. (<http://www.sec.gov/news/press/2006/2006-136.htm>). There were three subjects addressed in these two releases:

- First, the Commission proposed to grant relief to smaller public companies by extending the date by which non-accelerated filers must start providing a report by management assessing the effectiveness of the company's internal control over financial reporting. This release also proposes to extend the date by which non-accelerated filers must begin to comply with the requirement to provide an auditor attestation report on internal control over financial reporting. If adopted, the result would be that non-accelerated filers would only be required to complete management's portion of the internal control requirements in their first year of compliance.

- Second, the Commission granted certain foreign private issuers (accelerated filers, but not large accelerated filers) relief from the requirement to provide an auditor attestation report on internal control over financial reporting. As a result, these issuers are only required to complete management's portion of the internal control requirements in their first year of compliance.
- Third, the Commission proposed a transition period for newly public companies. If approved, newly public companies would not be required to provide either a management assessment or auditor attestation report until it has previously filed one annual report with the Commission.

SEC and PCAOB Matters

The Commission staff continues to work with the PCAOB staff on revisions to Auditing Standard No. 2, which implements Section 404 for auditors, so that it will more efficiently protect investors in companies of all sizes.

In July, the Commission approved a rule that facilitates the Commission's review and approval of the budget and accounting support fee for the PCAOB which is required by the Sarbanes-Oxley Act of 2002 (<http://www.sec.gov/rules/final/2006/33-8724fr.pdf>). The order approving the PCAOB's budget and annual accounting support fee for calendar year 2006 can be found at <http://www.sec.gov/rules/other/2006/33-8676.pdf>.

Brian T. Croteau is Associate Chief Accountant in the Office of the Chief Accountant at the SEC.

Audrey A. Gramling is an Associate Professor at Kennesaw State University and served as an Academic Fellow in the Office of the Chief Accountant at the SEC during 2004/2005.

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[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

AICPA to Release Paper on Forensic Accounting Issues

In 2004, the AICPA Forensic & Litigation Services Committee issued a discussion paper entitled ***Forensic Services, Audits & Corporate Governance: Bridging the Gap***. This memorandum explored a number of questions about the use of forensic procedures and forensic specialists in the audit process.

After consideration of comments received during a public roundtable and written submissions on the memorandum, the committee concluded that there was a lack of understanding about how forensic procedures and forensic specialists can be utilized. As a result, the committee concluded that there is a need among audit committees and throughout the accounting community for a more thorough understanding of the nature of forensic procedures and the extent of their potential use.

In response to this opinion, the Fraud Task Force of the American Institute of Certified Public Accountants (AICPA) has now concluded a special report, ***Forensic Procedures and Specialists: Useful Tools and Techniques***, to discuss the emerging needs in the accounting profession for the use of Forensic Specialists and Forensic Tools and Techniques. The report, authored by a panel of forensic professionals is intended to provide a useful insight into how and when forensic procedures can be used to uncover and/or investigate suspected fraud in an organization. The paper is scheduled for release on November 1, 2006, and will be available through the AICPA website, www.aicpa.org.

The Business Valuation, Forensic and Litigation Services section of the Institute is committed to expanding its educational and training materials in the fraud area, with a variety of important topics scheduled to be discussed in future papers. This initiative follows the 2005 release of the ***Management Override of Internal Controls: The Achilles Heel of Fraud Prevention*** paper which addressed the Audit Committee's consideration of the risk of management override of controls, leading to fraud existing in financial statements.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

Have You Seen...?

**Sudip Bhattacharjee, Virginia Tech
Duane Brandon, Auburn University
Brian Mayhew, University of Wisconsin
Jennifer Mueller, Auburn University
and Reed Smith, Indiana University Purdue University Indianapolis**

"Audit Quality: A Synthesis of Theory and Empirical Evidence," by A. L. Watkins, W. Hillison, and Susan E. Morecroft, *Journal of Accounting Literature* (Volume 23, 2004): 153-194.

This paper reviews and evaluates the theory and empirical research on audit quality. Such a consideration is warranted and necessary to take stock of the large body of audit quality literature and assess the current understanding of the concept. Gaps in the knowledge and understanding can then be identified and suggestions can be provided as to how to fill those gaps. The authors develop a theoretical framework that treats audit quality as a construct with multiple, interrelated dimensions and which constitutes a well-defined space for locating existing research and future hypothesis formation. The authors focus primarily on empirical papers that explicitly investigate audit quality as it relates to financial reporting. Therefore, the review does not include audit quality research relating to compliance or operational auditing.

"A Comparison of Auditor and Client Initial Negotiation Positions and Tactics," by C. W. Bame-Aldred and T. Kida, *Accounting, Organizations and Society*, In Press.

This study examines the initial negotiation positions and tactics of auditors and clients in a revenue recognition conflict. Using professional auditors and experienced financial managers (clients), the study investigates the degree of flexibility in auditor and client initial negotiation positions, whether auditors and clients accurately perceive the other party's positions, and the types of negotiation tactics that may be used by both parties. The results indicate differences in ways auditors and clients approach conflict resolution. Clients were more flexible, determined the auditor's goals and limits more accurately, and were more likely to use negotiation tactics such as bid high/concede later and trade-off one reporting issue for another.

"Management Reporting Incentives and Classification Credibility: The Effects of Reporting Discretion and Reputation," by F. Hodge, P. E. Hopkins, and J. Pratt, *Accounting, Organizations and Society* (Volume 31, 2006): 623-634.

The study looks at how the level of discretion in the reporting environment and management's reporting reputation influence the extent to which management's reporting incentives are important in determining the perceived credibility of management's classification choices. Using graduate business students, the results show that the extent to which users consider the consistency between the classification and management's reporting incentives depends on the level of discretion in the reporting environment and management's reporting reputation. Users rely less (more) on the consistency between management's reporting incentives and the classification in a mandated (discretionary) reporting environment and when managers have a good (poor) reporting reputation.

"Perceptions of the True and Fair View Concept: An Empirical Investigation," by N Kirk, *Abacus* (Volume 42, 2006): 205-235.

This article reports the results of a survey designed to explore New Zealand financial directors', auditors' and shareholders' perceptions of terms associated with financial reporting quality. The results show that a clear majority of all three groups share similar perceptions of the concept 'true and fair view'; but perceive 'true and fair view' to be quite different from 'fairly presents' and 'fair presentation'. The findings also support a literal rather than a technical interpretation of 'true and fair view'; that respondents do not perceive 'true and fair view' as compliance with GAAP.

"Managing Perceptions of Technical Competence: How Well Do Auditors Know How Others View Them?," by H. Tan and K. Jamal, *Contemporary Accounting Research* (Volume. 23, 2006): 761-787.

This article investigates factors that influence auditors' accuracy in knowing how subordinates, peers, and superiors view their technical competence. Using natural teams of auditors who work together in audit assignments, the study shows that accuracy in knowing what others think of one's technical proficiency (metaperception) is generally high, particularly when the predictor auditors are partners and managers; however, metaperception accuracy is asymmetric and varies depending on the predictor auditor, the target auditor being predicted, and task complexity.

"Prominent Audit Clients and the Relation between Discretionary Accruals and Non-Audit Service Fees," by C. Callaway Dee, A. Lulseged and T. S. Nowlin. *Advances in Accounting* (Volume 22, 2006): 123-148.

This study uses a matched-pair design and finds that for S&P 500 firms, higher proportions of non-audit fees are associated with higher income-increasing accruals; however, the result is not robust to alternative fee measures. For a group of matching small firms, higher fees paid to auditors are associated with higher levels of income-decreasing discretionary accruals (i.e., lead to more negative discretionary accruals). The authors conclude that the relation between discretionary accruals and fees paid to auditors differs for prominent and less-prominent audit clients, and auditors appear to be more conservative with their less-prominent audit clients from whom they receive large fees.

"Audit Programs and Audit Risk: A Study of Japanese Practice," by H. Fukukawa, T. J. Mock and A. Wright. *International Journal of Auditing* (Volume 10, Issue 1, 2006): 41-66.

This study examines whether audit planning is 'risk adjusted' using archival data from 235 clients from a well-established audit firm in Japan. The authors address all four aspects of audit planning (nature,

extent, timing and staffing) and examine a wide variety of client risks to reflect the current holistic audit approaches of global auditing firms. The results indicate that, although audit planning is based on the level of and change in assessments of many audit risk variables, the associations are rather modest. They also find that client risks that comprise business risk and fraud risk affect audit planning to some extent. In addition, they report exploratory results suggesting a substitution effect between audit planning judgments in response to higher client risks such as increasing the extent of validity tests while decreasing the extent of confirmations.

"The Differential Effects of Auditors' Non-Audit and Audit Fees on Accrual Quality," by B. Srinidhi, and F. A. Gul. *Contemporary Accounting Research* (Forthcoming). Available at SSRN: <http://ssrn.com/abstract=920776>

This paper examines linkages between the audit and non-audit fees and accrual quality. The authors posit that in settings where audit quality is compromised by a loss of auditor independence, managers use accruals more opportunistically and thereby drive down the accrual quality. Conversely, higher audit effort and quality translate to a better accrual quality. The dependent variables are the relative magnitude of non-audit fees to audit fees, the absolute magnitudes of audit, non-audit and total fees. Results show that accrual quality has a significant negative association with the magnitude of non-audit fees but a significant positive association with audit fees. This latter result is consistent with the proposition that higher audit fee reflects higher audit effort and better judgments about the propriety of accruals, but is not consistent with the proposition that audit fee is associated with economic bonding.

"An Economic Analysis of Audit and Nonaudit Services: The Trade-off Between Competition Crossovers and Knowledge Spillovers," by Martin Wu. *Contemporary Accounting Research* (Volume 23, 2006) 527-554.

The author examines an economic model of duopoly in which the firms in the duopoly both engage in a portfolio of services. The different services have the characteristic that there is improved efficiency when they are both performed for the same client (knowledge spillover). They also provide a source for competition that works against this efficiency. Wu finds that (1) the tensions created by duopolistic competition in the audit and NAS market and knowledge spillover can induce auditor specialization. Further, he finds that (2) some of the increase in audit fees that we have observed since the enactment of the Sarbanes-Oxley Act of 2002 may be due to the relaxing of the market tension from firms providing both types of services.

"The Importance of Account Relations when Responding to Interim Audit Testing Results," by Scott Vandervelde. *Contemporary Accounting Research* (Volume 23, 2006) 789-822.

Vandervelde reports the results of an experiment in which practicing auditors performed a web-based experiment in which they plan an audit budget for five clients in one period, then after receiving feedback about the results of the stage-one audit, they plan a second stage audit budget. The purpose of the experiment was to see to what extent auditors look in related accounts for problems once a potential problem has been indicated. The author finds that, in fact, auditors do consider related accounts and that audit profitability is not a significant factor in the auditor's reaction to problems identified in early stages of the audit.

"Effects of Multiple Clients on the Reliability of Audit Reports," by Anne Beyer and Sri Sridhar. *Journal of Accounting Research*. (Volume 44, 2006) 29 – 51.

Beyer and Sridhar consider a model with auditors that each have a portfolio of clients. There are two reasons that an auditor can report a bad firm as a good firm. Either there can be a statistical imperfection in the audit or the auditor can intentionally bias the report to please the client. The authors find that if an auditor gives a qualified report to one client, then this signals his ability and willingness to issue these types of reports and thus makes the clean reports that much more credible. They also show, though, that additional clients reduce audit quality for the existing clients because their capacity is constrained.

"Recognition v. Disclosure, Auditor Tolerance for Misstatement, and the Reliability of Stock-Compensation and Lease Information," by Robert Libby, Mark Nelson, and James Hunton. *Journal of Accounting Research*. (Volume 44, 2006) 533-560.

The authors conduct an experiment to determine whether auditors are more strict with reported numbers on the financial statements than they are with values that are merely disclosed in the footnotes. They examine stock compensation and leases which allow footnote disclosure as an alternative to recognition. In both the stock-compensation and lease settings, audit partners require greater correction of misstatements in recognized amounts than in the equivalent disclosed amounts.

"Does Opinion Shopping Impair Auditor Independence and Audit Quality," by Tong Lu. *Journal of Accounting Research*. (Volume 44, 2006). 561 – 583.

This study investigates the ability of companies to influence their auditors by threatening to switch auditors. Lu also considers how the stock market reacts to an auditor switch. The results indicate that neither the predecessor auditor's nor the successor auditor's independence is compromised by dismissal threats and opinion shopping. This is due to the fact that the successor auditor is motivated to provide a higher quality audit than is the predecessor auditor.

[Back to Contents Page](#)



THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

"Have You Seen These Instructional Resources?"

By the 2006–2007 Education Committee of the Auditing Section of the AAA

Jay C. Thibodeau, Chair - Bentley College

Richard Riley - University of West Virginia

Greg Jenkins - Virginia Tech University

Pamela Roush - Central Florida University

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

International Symposium on Audit Research Shanghai, China 22 - 23 JUNE, 2007

Call for Papers

The 13th Annual International Symposium on Audit Research (ISAR) will be hosted by the Shanghai Jiao Tong University [SJTU] on 22 and 23 June, 2007. ISAR 2007 will be jointly organized by the University of Southern California, Universiteit Maastricht, Nanyang Technological University, the University of New South Wales and [Shanghai Jiao Tong University](#). The symposium will be held in Shanghai, PRC.

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 Research Papers

Papers may be submitted in either English or Chinese. However, Chinese language papers must include an English language abstract which describes the paper's research objective[s]; research questions; research methodology; data sources (if applicable) and key research findings. To be eligible for presentation, manuscripts must follow the [style guidelines of Auditing: A Journal of Practice & Theory](#). Be sure to include in your paper the author(s) affiliation(s), the contact author's email address, an abstract and keywords. Accepted papers or abstracts will be published in the Symposium proceedings which will be distributed only to participants. Thus they may be submitted to any appropriate journal for formal publication.

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 27 January 2007 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](#)

The Illinois International Accounting Symposium

held at the

University of Hawai`i at Mānoa

Honolulu, Hawaii

June 7-9, 2007

Accountancy



Call for Papers

The 2007 annual symposium of *The International Journal of Accounting* will be held in Honolulu, Oahu, Hawai`i on June 7-9, 2007. The theme of the 2007 symposium is "Measurement, Disclosure and Governance." Papers in all areas of international accounting, taxation, auditing, and ethics are welcome. Authors are invited to submit research papers for presentation. Submitted papers will be anonymously reviewed. The Program Committee will select papers for presentation based on the comments of the reviewers, quality of the work and potential contribution to the literature. There is limited space for other participants who would like to attend.

The registration fee of \$300.00 will cover copies of the conference materials and meals. Registration fees are waived for authors, co-authors, and discussants appearing on the program. A stipend of up to US\$1,600.00 to cover the travel and lodging cost will be provided for one author for each accepted paper and for each discussant. Accepted papers will be published in *The International Journal of Accounting*, a publication of Elsevier, after satisfying the refereeing process. The deadline for submission is January 31, 2007. Papers are to be submitted in an electronic form to ciera@uiuc.edu

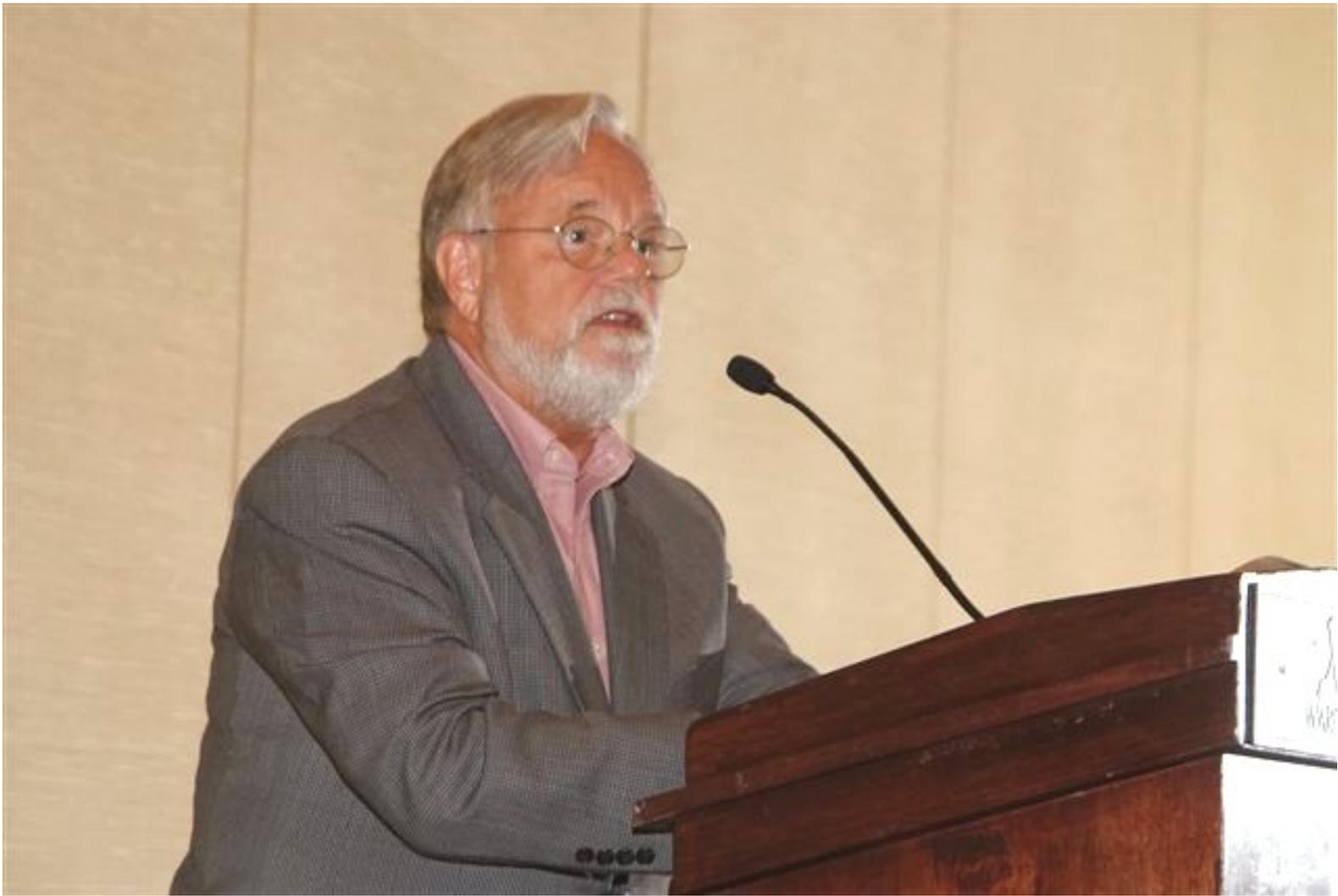
Please visit: www.business.uiuc.edu/ciera/conferences/ for conference updates.

Questions about the conference may be addressed to Susan Sutherland at sesuther@uiuc.edu or:

A. Rashad Abdel-khalik University of Illinois at Urbana-Champaign College of Business 1206 S. Sixth Street 320 Wohlers Hall Champaign, IL 61820 rashad@uiuc.edu	Shirley Daniel Henry A. Walker Jr. Professor of Business Enterprise School of Accountancy College of Business Administration University of Hawai`i at Mānoa 2404 Maile Way Honolulu, HI 96822 sdaniel@hawaii.edu
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The symposium is co-sponsored by the School of Accountancy and the Center for International Business Education and Research in the College of Business Administration at the University of Hawai`i at Mānoa (www.cba.hawaii.edu), the Zimmerman Center of the University of Illinois at Urbana-Champaign, and Elsevier, the publisher of the *Journal*. The symposium will be held at the East-West Center on the campus of the University. A special feature of the symposium will be a guided visit to Shangri La, the Honolulu home of Doris Duke. Built in 1937, Shangri La houses an impressive collection of Islamic art and is considered one of Hawai`i's most architecturally significant homes (www.shangrilahawaii.org).







Format	Title	Date	Source	Description	How to Obtain
Book	Auditing after Sarbanes-Oxley: Illustrative Cases	2007	McGraw-Hill Irwin Publishers	Book has 35 short cases (3-5 pages) that focus on specific auditing issues directly impacted by Sarbanes-Oxley. The cases are written about a number of the recent cases of financial statement fraud (e.g., Enron, WorldCom, Qwest).	Book Store
Teaching/ Information Source	Fraud and the Tone at the Top	N/A	AICPA Website	Short video presentation about the connection between fraud and ethics. The video is appropriate for in-class use.	http://antifraud.aicpa.org/Resources/Fraud+and+the+Tone+at+the+Top.htm
Report	Final Report of the Advisory Committee on Smaller Public Companies to the U.S. Securities and Exchange Commission	April 18, 2006	SEC Website	Provides recommendations to the SEC related to oversight of small public companies. There are more than 30 recommendations included in the report.	<a href="http://www.sec.gov/info/smallbus/acspc/acs-
finalreport_discdraft_041806.pdf">http://www.sec.gov/info/smallbus/acspc/acs- finalreport_discdraft_041806.pdf
Exposure draft	Proposed SSAE on Reporting on an Entity's Internal Control over Financial Reporting (ICFR)	January 19, 2006	AICPA Website	The Auditing Standards Board has substantially revised the guidance related to reporting on ICFR. The proposed standard is very similar to the PCAOB's Auditing Standard No. 2.	http://www.aicpa.org/members/div/auditstd/Internal_Control_Financial_Reporting.htm
Website	PCAOB New Release on 2006 Inspections	May 1, 2006	PCAOB Website	The PCAOB intends to focus on audit efficiencies related to audits of ICFR this year. This new release discusses that intention and provides a link to past inspection reports.	http://www.pcaobus.org/News_and_Events/News/2006/05-01a.aspx

<i>Format</i>	<i>Title</i>	<i>Date</i>	<i>Source</i>	<i>Description</i>	<i>How to Obtain</i>
Electronic or book	Current Developments for Audit Committees 2006	2006	PricewaterhouseCoopers LLP	PwC's annual publication that briefs audit committee members on important developments they need to aware of as they carry out their oversight responsibilities. It captures the events of the past year, highlighting issues ranging from court decisions to dealing with investors who may have conflicting objectives.	http://www.pwc.com/DevelopmentsforAuditCommittees or contact your local office of PwC
Teaching/ Information Source	ACFE Website	Website	ACFE	Excellent Website for Asset Misappropriation, Corruption and Abuse and a little on Financial Statement Fraud. Student Memberships are \$25 and included in the membership is the ACFE's Fraud Examiner Manual.	http://www.acfe.com/home.asp
Book	Sarbanes-Oxley and the Board of Directors	2005	By Scott Green: John Wiley & Sons, Inc.	This book highlights techniques and best practices for Corporate Governance in a post-SOX world.	Book Store
Book	Executive Roadmap to Fraud Prevention and Internal Control: Creating a Culture of Compliance	2006	By Martin Biegelman and Joel Bartow: John Wiley & Sons, Inc.	This book highlight management anti-fraud programs to proactively prevent and deter fraud, including checklists and best practices for whistleblower and hotlines	Book Store
Teaching/ Information Source	Internal Control Reporting	N/A	PCAOB Website	Narrative explanation of the PCAOB's plan to improve implementation of internal control reporting.	http://www.pcaobus.org/News_and_Events/News/2006/05-17.aspx

Format	Title	Date	Source	Description	How to Obtain
Teaching/ Information Source	ACFE Website	Website	ACFE	Excellent Website for Asset Misappropriation, Corruption and Abuse and a little on Financial Statement Fraud. Student Memberships are \$25 and included in the membership is the ACFE's Fraud Examiner Manual.	http://www.acfe.com/home.asp
Teaching/ Information Source	AICPA – Business Valuation and Forensic and Litigation Services Website	Website	AICPA	This Center serves current BVFLS practitioners, including: <ul style="list-style-type: none"> · Business appraisal specialists and business valuation analysts, including the Accredited in Business Valuation (ABV) credential holders · Forensic accounting specialists, including litigation specialists, family law practitioners, fraud examiners, and economic damages specialists 	http://bvfls.aicpa.org/
Teaching/ Information Source	American Board of Forensic Accounting	Website	American College of Forensic Examiners Institute of Forensic Science (ACFEI)	The American College of Forensic Examiners Institute of Forensic Science (ACFEI) is multi-disciplinary in its scope; the society actively promotes the dissemination of forensic information.	http://www.acfei.com/about.php?boardname=abfa
Teaching/ Information Source	Assessing and Responding to Risks in a Financial Statement Audit	July 2006	<i>Journal of Accountancy</i>	This is the first in a two-part series on the new audit risk standards. The article provides a	http://www.aicpa.org/pubs/jofa/jul2006/fogarty.htm

<i>Format</i>	<i>Title</i>	<i>Date</i>	<i>Source</i>	<i>Description</i>	<i>How to Obtain</i>
				useful overview of the standards and complements classroom discussion of the new standards.	