



THE
AUDITOR'S
REPORT

Volume 27, No.2, Spring 2004

AUDITING SECTION/AMERICAN ACCOUNTING ASSOCIATION

REPORT OF THE PRESIDENT

This is my second President's Report, which appears in the issue of *The Auditor's Report* optimistically called "Spring." (We used to have a Winter issue of the *Report*, but apparently we tried to banish winter from the Auditing Section by changing this issue's label. Unfortunately, this hasn't worked, as the temperature in New England as I write this is 4° F, or -16° C.) But at least we Northerners got a few days of nice weather in January, a pleasant byproduct of the truly outstanding 2004 Auditing Section Midyear Conference held in Clearwater Beach, Florida. As reported elsewhere in this issue, the Midyear Conference drew a record attendance of 281. Special thanks are due to the Midyear Conference Co-Chairs, Steve Glover and Doug Prawitt (both at Brigham Young University), and to the other members of the conference program committee: Brian Mayhew (University of Wisconsin), Mark Peecher (University of Illinois), Bob Ramsay (University of Kentucky), Susan Scholz (University of Kansas), and Billy Soo (Boston College). One very important factor in our ability to develop a tradition of high-quality Midyear Conferences is the continuing generous support of the KPMG Foundation, which has provided funding for these meetings since their inception. We thank all the personnel of the KPMG Foundation



Jean C. Bedard

for their support, and especially want to recognize Bernie Milano, who through the years has been instrumental in helping the Auditing Section.

The Midyear Conference program began with a speech by Dr. Douglas R. Carmichael, Chief Auditor of the Public Company Accounting Oversight Board. His speech on the social responsibility of the auditing profession is posted on the Section's website. We very much appreciate Dr. Carmichael's willingness to address our meeting, given the many demands on his time due to his responsibilities at the Board.

There were 33 research papers presented in paper sessions, as well as four instructional cases, and there were 20 additional papers presented in the Research Forum. These papers addressed a broad array of topics and research methods. In addition, there were several panel sessions, which were particularly informative in providing information to help improve our teaching and research. The plenary panel considered the topic of "Setting Auditing Standards in the National and International Environments." This panel was cosponsored by the Auditing Standards Committee and the

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SUMMER 2004 ISSUE DEADLINE

The deadline for material to be included in the Summer 2004 issue of *The Auditor's Report* is April 30, 2004. The preferred format is a Word file attached to an email 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 April 30, 2004 to ensure timely publication of the issue:

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The address of the Auditing Section's Home Page on the World Wide Web is: <http://raw.rutgers.edu/raw/aaa/audit/>

Note from Rich Houston: In the Fall 2003 issue of *The Auditor's Report*, I posted an incorrect deadline for the Spring issue. I would like to give a huge thanks to everyone who helped get this issue out on a timely basis. There are too many people to mention individually, but at a minimum every author in this issue deserves a huge thank you.

President's Report

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Practice Advisory Council. Gary Holstrum (Consultant, Office of the Chief Auditor, PCAOB, and professor at the University of South Florida) discussed the role of the PCAOB in standard setting, and the Board's progress to date. Lyn Graham (Auditing Standards Board, BDO Seidman LLP) presented his views on the future role of the ASB in setting standards for audits of private companies. Jim Sylph (International Federation of Accountants) described the structure and function of IFAC and of the International Auditing and Assurance Standards Board. The panel concluded with the first musical number ever presented in a Midyear Conference session (to my knowledge, at least): a rendition of the "Sarbanes-Oxley Blues." This is a very topical song making the rounds on the Internet, which presents a CEO's lament about tougher standards under the Sarbanes-Oxley Act of 2002.

In addition, there were four concurrent panels. On Friday, Scott Reed and Mark Terrell, both with KPMG's Audit Committee Institute, presented a panel on "Audit Committee Issues." Scott and Mark discussed current trends in the environment with respect to audit committees, including changes in the structure and function of those committees in response to new regulatory requirements. The lively discussion touched on a number of related topics, including the role of academic accountants on audit committees. (A poll of the audience of about 50 auditing academics, at all ranges of experience, showed that only one had ever served on a corporate audit committee.)

Friday's program also included a panel featuring the U.S. General Accounting Office. Jeannette Franzel and Richard Vagnoni of the GAO discussed several topics, including: (1) the influence of the Sarbanes-Oxley Act on the accountability environment in governmental agencies; (2) the results of studies performed by the GAO in response to provisions of the Sarbanes-Oxley Act (e.g., on mandatory auditor rotation); and (3) the proliferation of standard-setting bodies in the auditing arena. Importantly, they reported that the Comptroller General of the U.S. has proposed periodic "summit" meetings of the heads of the GAO, PCAOB, and U.S. Auditing Standards Board, in order to coordinate efforts of those parties regarding auditing standards.

On Saturday, the Education Committee sponsored a panel on "The Implications of Current Audit Approaches for Audit Education." Presenters were Kevin Bouchillon (PricewaterhouseCoopers) and Steve Glover (Brigham Young University). Kevin and Steve used the current PwC audit approach as an example of how auditing faculty can use specific audit techniques implemented by firms to add richness to the content of auditing courses.

The fourth panel, sponsored by the Research Committee, was entitled "The Road Less Traveled: Field Research in Auditing and Corporate Governance." The Research Committee considered that while field research methods can prove to be very informative about current practice, and lead to theory development and further research using behavioral or empirical methods, many doctoral programs do not teach these methods. This panel was intended to assist faculty considering use of field research by providing insights of researchers experienced in this method. The panel was chaired by Steve Salterio (Queen's University), and also featured Mike Gibbins (University of Alberta), Vaughan

Radcliffe (University of Western Ontario), Arnie Wright and Jeff Cohen (both at Boston College).

In conjunction with the Midyear Conference, the Section also sponsors a Doctoral Consortium. There were 36 students in attendance at this year's Consortium, whose feedback on the program was highly positive. Speakers included Jane Kennedy (University of Washington), Bill Kinney (The University of Texas at Austin), Mark Penno (Purdue University), Rachel Schwartz (Washington University), and Dan Simunic (University of British Columbia). The Editors' panel, chaired by Mark Nelson (Cornell University), featured Bill Messier (Georgia State University), Editor of *Auditing: A Journal of Practice & Theory*; Jane Kennedy, Associate Editor of *The Accounting Review*; and Dan Simunic, Associate Editor of *Contemporary Accounting Research* and Co-Editor of the *Asian Journal of Accounting and Economics*. Many thanks go to the Doctoral Consortium Planning Committee, chaired by Ron King (Washington University) and including Mark Nelson and Mark DeFond (University of Southern California), for developing this fine program. The Doctoral Consortium provides doctoral students with the ability to interact on a personal level with some of our top scholars, and to hear their perspectives on the main types of research within the auditing discipline. Support for the Consortium is provided by the KPMG Foundation, over and above their support for the Midyear Conference. We again thank the KPMG Foundation for enabling the Auditing Section to provide this valuable benefit for our new scholars.

Prior to the Midyear Conference, a CPE session was held on the topic of "Practice Insights on Sarbanes-Oxley 404." John Murphy (assurance partner from KPMG's Tampa office) instructed faculty members in a CPE session on the challenges and progress auditors are facing with providing assurance on the adequacy of internal controls over financial reporting. John demonstrated tools and methods that are used by KPMG for providing this new assurance service, which was mandated by Section 404 of the Sarbanes-Oxley Act. John answered numerous questions about the challenges faced by auditors in providing this service. He also gave insights into public companies' needs to have the systems in place that allow management to assert that their controls are effective and for auditors to test managements' assertions. The session was one of the highest attended CPE sessions in recent history with 54 faculty participants. We appreciate KPMG's support in helping us gain practice insights into this new assurance service. Thanks to the CPE Committee: Mark Zimelman (Chair), Bill Heninger, and Greg Burton (all at Brigham Young University).

I want to highlight one feature of the Midyear Conference program that may be underappreciated, and that is the granting of the Auditing Section's awards. The Section gives five awards annually, celebrating the achievement of members in teaching, research, and service. This year's winners, who are at very different stages of their careers, are all truly inspiring in their talent and dedication to the pursuit of knowledge and the education of students at all levels. Andy Bailey, this year's winner of the Distinguished Service Award, has served as President and Historian of the Auditing Section, as well as President of the American Accounting Association (among many other key roles). We were pleased to announce at the Midyear Conference that Andy has

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just been selected as Deputy Chief Accountant at the Securities & Exchange Commission. Among his responsibilities will be to serve as a liaison between the SEC and the PCAOB. We all wish him well in that endeavor. Mike Gibbins (University of Alberta) and Jim Newton won the Notable Contributions to the Auditing Literature Award for their 1994 *Journal of Accounting Research* article, "An Exploration of Complex Accountability in Public Accounting." In accepting the award, Mike told us that Jim and his wife have moved to South Africa to manage a charitable foundation devoted to helping children with AIDS. (For those of you wishing to know more about this foundation, its address is <http://www.edzimkulu.org/>.) Dan Simunic (University of British Columbia) is this year's winner of the Outstanding Educator Award. Dan was recognized for his many contributions to auditing education, both in terms of his teaching as well as his research. (As noted elsewhere in this Report, Dan has been selected as the incoming Editor of *Auditing: A Journal of Practice & Theory*.) Christine Earley (University of Connecticut) won this year's Innovation in Auditing and Assurance Award, for developing course materials on integrating integrity into the auditing course. Kathryn Epps (Mercer University) is this year's winner of the Outstanding Dissertation Award for her thesis paper entitled, "Performance Evaluation in Concurring Partner Review: A Test of a Cognitive Model." Kathryn's dissertation chair was Bill Messier (Georgia State University), who was recognized with the Outstanding Dissertation Chair Award.

Let me turn now to a report on the Section's Business Meeting, which took place at the Midyear Conference. The Section's members voted this fall to fill the offices of VP-Academic (President-Elect), VP-Practice, and Secretary. The 260 members who cast votes elected Mark Beasley (North Carolina State) as incoming VP-Academic (President-Elect), Scott Showalter (KPMG LLP) as VP-Practice (Scott is currently serving in the position, having taken on the role in midterm), and Kay Tatum (Miami University) as Secretary. Mark and Kay will assume their positions at the Section's luncheon at the AAA Annual Meeting this August in Hawaii.

The Treasurer's report was also featured at the Business Meeting. As you will note from this report (published elsewhere in this issue), the financial condition of the Section continues to improve. The Section's cash balance stood at \$173,085 on November 30, 2003 (the end of the first quarter of the current fiscal year), up from \$87,582 at the same time last year. While some of the increase is due to different timing of certain events across years (given the AAA's cash basis system), this still represents a substantial increase. Jeff Cohen reported that the improved cash balance results from recent increases in member dues and subscription fees, as well as the escrow of a portion of editorial support fees to support the 25th Anniversary Conference of *Auditing: A Journal of Practice & Theory* in 2005.

Bill Messier (Georgia State University) presented the Editor's report for *Auditing: A Journal of Practice & Theory*, which also appears elsewhere in this newsletter. The September 2003 issue contains articles handled by Bill and his Associate Editors, Mark DeFond (University of Southern California), K. Raghunandan

(Florida International University), Hun-Tong Tan (Nanyang Technological University), and Rick Tubbs (The University of Iowa). Also, the September issue contains some articles retained and completed by the journal's prior editor, Arnie Wright (Boston College) and his editorial team. Our heartfelt thanks to all those involved in the editorial process of *Auditing*, whose combined efforts have made this journal a very high-quality outlet for our research.

The Business Meeting also featured reports by Chairs of the Section's standing committees, through which much of the Section's work is done: Auditing Standards Committee, Communications Committee, Education Committee, Membership and Regional Coordinators Committee, and Research Committee. Dana Hermanson, Chair of the Auditing Standards Committee, noted that this fall, the ASC has written comment letters on the proposed COSO Enterprise Risk Management framework, and the PCAOB's internal control and documentation standards exposure drafts. The COSO comment letter was published in the *The Auditor's Report*, Fall 2003. The internal control and documentation exposure draft comment letters appear elsewhere in this issue. Future comment letters will be posted to the Section's website as soon as they are written, with email notification to Section members. This will ensure that the comment letters are available to you in a timely manner, so that you may consider them when preparing your teaching materials. The ASC also co-sponsored the 2004 MYC panel session on national and international auditing standards, described above.

Jeff Payne (University of Oklahoma), Chair of the Communications Committee, reported that the redesign of the Section's web page was completed. Also, the Communications Committee will now manage the distribution of complimentary issues of *Auditing* to VIPs, including standard setters, members of Congress, financial press reporters, etc.

Don Tidrick, Chair of Education Committee, presented its report. Committee activities include publishing summaries of educational resources in *The Auditor's Report* column, "Have You Seen These Educational Resources?" Columns in the current year include resources for teaching auditing and accounting ethics appeared in *The Auditor's Report*, of Fall 2003 and resources for teaching internal auditing appearing in this issue. The Education Committee's next initiative is to compile information regarding ideas for group projects in the auditing course. The Education Committee also sponsored the Midyear Conference panel session on how auditing faculty should consider the firms' current audit approaches in their courses.

Julia Higgs (Florida Atlantic University), Vice Chair of the Membership and Regional Coordinators Committee, presented the Committee's report for Chair Dave Sinason (Northern Illinois University). The Membership Committee report voiced concern that educators from smaller, more teaching-oriented schools are not well represented within the Section. They are proposing three initiatives: (1) giving free memberships in the Section to new auditing faculty, (2) promoting Section membership at the AAA New Faculty Consortium, and (3) encouraging members from smaller and nonresearch schools to be more involved in Section leadership. To investigate this issue, the Executive Committee has authorized a study of the membership composition of

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the Section, and of its committee structure. Also, we are pleased to announce that the Executive Committee approved the granting of free two-year student memberships in the American Accounting Association and the Auditing Section to all Doctoral Consortium attendees. This additional benefit will be extended to the participants of the 2004 Doctoral Consortium, as well as to those of future consortia.

Steve Salterio, Chair of the Research Committee, reported that under his leadership, this Committee has had three goals: (1) to obtain more exposure for auditing research, (2) to increase Section members' access to research data and subjects, and (3) to provide information to members on opportunities for further development of their research skills. The Research Committee has had more success with respect to the first and third of these goals. The Committee has published articles in *The Auditor's Report* on obtaining more exposure for auditing research and on developing new research skills. Further, the Committee sponsored the panel session in the 2004 Midyear Conference on field research in auditing and corporate governance.

Next, I want to remind you of our upcoming meetings. This year's AAA Annual Meeting will be held in Orlando, Florida, on August 9–11. Mike Ettredge (University of Kansas) is the Auditing Section's liaison to the AAA Annual Meeting Planning Committee. Mike reports that he has received 80 paper submissions and one special session proposal. (The number of submissions is down somewhat from last year, primarily due to the relatively large numbers of papers from Asia and Australia that were submitted to last year's Hawaii meeting.) There should be an excellent program for Auditing Section members in Orlando, and we hope the Section will be well represented. Be sure to mark your calendars for the Section's usual Monday lunch.

Our next Midyear Conference will be held at the Astor Crowne Plaza Hotel, in New Orleans, on January 14–15, 2005. Preceding the Midyear Conference on January 13 will be a separate research conference occasioned by the 25th anniversary of *Auditing: A Journal of Practice & Theory*. The call for papers for the 25th Anniversary Conference appears in this issue. Papers accepted for the 25th Anniversary Conference will appear in a supplemental issue of *Auditing*. Papers submitted to the 25th Anniversary Conference and not accepted will be forwarded to the Midyear Conference program chairs, Billy Soo (Boston College) and Mark Peecher (University of Illinois), unless the authors direct otherwise. There will not be a separate registration fee for the 25th Anniversary Conference (i.e., the Midyear Conference registration fee will cover both events). We hope that this very special event will signal the pride that we all take in the quality of the *Auditing* journal, and in its value to the practitioner and academic auditing communities.

Looking a bit further down the road, Linda Mc Daniel (University of Kentucky), President-Elect, announced at the Business Meeting that the 2006 Midyear Conference will be held jointly with the AAA International Section. The location is to be determined, but according to our normal rotation, will probably

be held in the Western U.S. The idea of a combined meeting was proposed to the Executive Committee by the International Section. We appointed a Task Force to study the proposal, headed by Jeff Cohen (Boston College), and also consisting of Mark DeFond (University of Southern California), Todd DeZoort (The University of Alabama), and Morley Lemon (University of Waterloo). The Task Force responded favorably to the proposal, and the Executive Committee voted to approve a combined meeting with limited overlap (about one-half day). Planning for the meeting will go forward under the leadership of Mark DeFond and Todd DeZoort, 2006 Midyear Conference program chairs.

Finally, I want to report on activities that the Executive Committee has undertaken with regard to liaisons with auditing practitioners and regulators. These interactions are very crucial for auditing educators, in two basic ways. First, they facilitate communication of current information on the auditing environment, which keeps our teaching and research up to date. Also, this interaction enables auditing professionals and regulators to be informed by the insights we provide, which come from our scholarship and from our teaching experience. One very important means of accomplishing these goals is through our Practice Advisory Council (PAC). The PAC is composed of individuals from various auditing firms and professional organizations. There are two key items currently under discussion at the PAC: (1) a research initiative, involving PAC sponsorship of research on specific topics of importance to the profession, possibly including assistance with access to data; and (2) an education initiative, involving close interaction with academics to develop education-oriented events for meetings and educational materials. I hope to be able to provide further details on these initiatives very shortly.

Our other main initiative involves developing a close relationship between the Auditing Section and the Public Company Accounting Oversight Board. Joe Carcello (University of Tennessee), Past President, reported on the status of the Section's approach to the PCAOB at the Business Meeting. The Executive Committee is working on several areas for involvement with the PCAOB and its staff: (1) interaction through the Section's Auditing Standards Committee, (2) assisting the PCAOB with identifying members of the Auditing Section who are willing to serve on the Board's Standing Advisory Group; (3) urging the PCAOB to sponsor an Academic Accounting Fellows Program, and (4) in the longer term, promoting PCAOB sponsorship of funded research projects. The Auditing Standards Committee has been successful to date interacting with the PCAOB, and has written comment letters on two PCAOB Exposure Drafts. The comment letters were well received by PCAOB members and staff. We submitted a set of nominees for the Standing Advisory Group, which should be named within the coming months. However, the accounting fellows program and funded research projects are delayed until the PCAOB's organizational structure is fully operational.

In closing, I extend my sincere thanks to the members of the Executive Committee, and to members of other Section committees as well, for their diligence in performing all the tasks necessary to achieving the Section's goals.



The fishing pier on Clearwater Beach, site of the 2004 Midyear Meeting.

2004 Midyear Auditing Conference Clearwater Beach, Florida

The 2004 Midyear Meeting of the Auditing section appeared to be a success, aided immeasurably by the beautiful Florida weather. It provided a welcome relief for those attendees traveling from the frozen tundra of the north. On the day prior to the meeting, the Section (with the KPMG Foundation's support) sponsored a Doctoral Consortium which was attended by 36 doctoral students.

The meeting itself was kicked off by the plenary speaker, Dr. Douglas R. Carmichael, Chief Auditor of the Public Company Accounting Oversight Board, who spoke about the social responsibility of the auditing profession. The full text of his speech is available in Word format on the Section's website

(<http://raw.rutgers.edu/raw/aaa/audit/>; link titled "keynote speech").

A Plenary Panel, co-sponsored by the Auditing Standards Committee and Practice Advisory Council, and moderated by Dana Hermanson, Chair, Auditing Standards Committee, addressed "Setting Auditing Standards in the National and International Environments." Panelists included Gary Holstrum, Consultant, Office of the Chief Auditor, PCAOB and University of South Florida; Lynford Graham, Auditing Standards Board; and Jim Sylph, International Auditing and Assurance Standards Board.

In addition, there were panel discussions during the concurrent sessions that dealt with audit committee issues; a GAO update; the implications of current audit approaches for audit education; and field research in auditing and corporate governance.

Thirty-three papers were presented, including papers oriented toward education. Another twenty papers were presented at the roundtable. This was the third year of the roundtable, and it again was quite successful.

Total attendance was 281, up significantly from last year's 237. Thirty-six students registered for the Doctoral Consortium and fifty-four attended the CPE session on "Practice Insights on Sarbanes-Oxley 404," presented by John Murphy. Section award winners were: Distinguished Service in Auditing Award – Andy Bailey; Outstanding Auditing Educator Award – Dan Simunic; Notable Contribution to the Auditing Literature Award – Mike Gibbins and Jim Newton; Innovation in Auditing and Assurance Education Award – Christine Earley; Doctoral Dissertation Award – Kathryn Epps and advisor, Bill Messier.

Copies of the presentations made at the Doctoral Consortium, along with copies of many of the papers and presentations featured at the meeting, are available at:

<http://raw.rutgers.edu/raw/aaa/audit/midyear/04midyear/2004%20Midyear%20Auditing%20Meeting.htm>

Thanks again are due to KPMG and Bernie Milano for their continued sponsorship and support; all reviewers, discussants, and moderators; Dee Strahan at the AAA; and McGraw-Hill/Irwin for co-sponsoring a reception.



Jean Bedard presents plaques to thank Steve Glover and Doug Prawitt for organizing the 2004 Midyear Meeting.



Members of the plenary panel, "Setting Auditing Standards," just after completing their well-received song about Sarbanes-Oxley.



Celebrants at one of the three receptions held outside on Clearwater Beach.

2004 Midyear Auditing Section Doctoral Consortium

Ron King, Chair of the Doctoral Consortium Planning Committee

The 2004 Auditing Section Doctoral Consortium was held on Thursday January 15, 2004 in Clearwater Beach, Florida. The topics and speakers included: “Auditing Research on Current Issues: The Impact of SOX,” by Bill Kinney (The University of Texas at Austin); “Analytical Auditing Research: New Directions from Several Disciplines,” by Mark Penno (Purdue University); “Experimental Economics Research in Auditing,” by Rachel Schwartz (University of Illinois); “Audit Quality and Audit Firm Size Revisited,” by Dan Simunic (University of British Columbia); and “Producing Good Research: Behavioral and Otherwise,” by Jane Kennedy (University of Washington). Ron King (Washington University) moderated these five sessions. The last session was moderated by Mark Nelson (Cornell University). During this session, a panel of editors discussed the editorial and publishing process. The panel included Jane Kennedy, representing *The Accounting Review*; Bill Messier (Georgia State University), representing *Auditing, Journal of Theory & Practice*, and Dan Simunic representing *Contemporary Accounting Research* and *Asia Pacific Journal of Accounting and Economics*. Thirty-six Ph.D. students participated in the Consortium, with representation from across the country. Materials from the presentations are posted on the AAA website. The Consortium Committee thanks the KPMG Foundation for its generous funding of the Consortium.



Faculty participants in the 2004 Doctoral Consortium.

Participants in the 2004 Doctoral Consortium.



2004 Deloitte / KU Auditing Symposium

Friday, April 30 and Saturday, May 1, 2004

The 2004 Deloitte / KU Auditing Symposium will be held on Friday and Saturday, April 30–May 1 in Lawrence, Kansas. Sessions will take place all day Friday and until approximately 2:30 p.m. on Saturday. The theme is the Impact of Sarbanes-Oxley on the Audit and Reporting Environment. The program will include external audit, audit committee, international, and legal perspectives presented via panels and papers.

Participation and attendance at the Symposium typically are by invitation and space is limited. Any interested parties should contact:

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AWARDS PRESENTED AT THE 2004 MIDYEAR AUDITING CONFERENCE

Clearwater Beach, Florida

2004 Distinguished Service in Auditing Award

Presented by Scott Showalter

The 2004 Distinguished Service in Auditing Award was presented to Professor Emeritus Andrew “Andy” D. Bailey, Jr. This award recognizes exemplary service to the auditing profession and the Auditing Section, as well as scholarly contributions to the field of auditing. Criteria for the award are outstanding career achievements over a 20–25 year period that have a lasting and significant impact on the auditing field, as evidenced by service to the auditing profession and the Section, or by significant contributions in scholarship. This year’s recipient has made significant contributions in all three areas.

Professor Bailey has demonstrated his service to the auditing profession in numerous ways. He served as an Academic Fellow at the Securities and Exchange Commission. During his fellowship, he was awarded the SEC Chairman’s (Levitt) Award of Excellence as part of the Auditor Independence Team. He also was a representative on the Committee of Sponsoring Organizations (COSO) and on the Board of Regents of the Institute of Internal Auditors. More recently, Professor Bailey was a member of the Institute of Internal Auditors Research Foundation. Professor Bailey has contributed to the development of auditors by serving on the Board of Examiners and the CPA Examination Content Committee of the AICPA. Professor Bailey also was the co-editor of *Research Opportunities in Internal Auditing*, sponsored by the Institute of Internal Auditors Research Foundation. He also obtained CPA, CMA, CIA, and CFE professional certifications. Professor Bailey’s accomplishments were acknowledged by *Accounting Today* in 1994 as one of “The 100 Most Influential People in Accounting.”

Professor Bailey also has made numerous contributions to the Auditing Section. He has served in many capacities in the American Accounting Association, as well as in the Auditing Section. For example, he was the President-Elect, President, and Past President of the American Accounting Association. Professor Bailey also was Chairman of the Auditing Section and has served on the Executive Committee in several capacities, most



Scott Showalter presents the 2004 Distinguished Service Award to Andy Bailey.

recently as Historian. He served on the Nominations Committee for the editor on *AJPT*. Some of the other numerous committees on which he has served include the Auditing Standards Committee (twice), ASOBAC Revision Feasibility Committee, and Nominations Committee. Professor Bailey also was the Program Co-chair of the AAA-AAPG 1998 Midyear Meeting.

Professor Bailey’s contributions also include scholarship. His research on systems and internal controls has been widely cited and has been published in *Journal of Accounting, Auditing and Finance*, *Auditing: A Journal of Practice & Theory*, *Journal of Organizational Computing*, *Journal of Information Systems*, and *Journal of Accounting Research*. His research has been funded by grants from the IIA Research Foundation, Caterpillar, Coopers & Lybrand Foundation, and the KPMG Foundation. Professor Bailey has served as Co-editor of *Auditing: A Journal of Practice & Theory*, Associate Editor of *The Accounting Review* and *Journal of Information Systems*, and has served on numerous academic journal review boards.

2004 Outstanding Auditing Educator Award

Presented by Joe Carcello

The 2004 Outstanding Auditing Educator Award was presented to Professor Dan Simunic, Certified General Accountants’ Professor at the University of British Columbia. This award recognizes outstanding contributions in research or teaching over an extended period of time.

Professor Simunic has published over a dozen papers in the *Journal of Accounting Research*, *Contemporary Accounting Research*, *Journal of Accounting & Economics*, and *Auditing: A Journal of Practice & Theory*, as well as a frequently cited monograph published by the Canadian General Accountants’ Research Foundation. His 1980 paper in the *Journal of Accounting*

Research represents the genesis of research on audit fees. To provide perspective on the impact of this 1980 paper, all 39 archival audit fee papers published in *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting & Economics*, *Contemporary Accounting Research*, and *Auditing: A Journal of Practice & Theory* from 1980 through 2003 were examined—Professor Simunic’s paper was cited in 33 of these 39 papers.

Professor Simunic has served as editor or associate editor at *Contemporary Accounting Research*, *The Accounting Review*,

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AWARDS PRESENTED AT THE 2004 MIDYEAR AUDITING CONFERENCE

Outstanding Auditing Educator

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and the *Journal of Accounting & Economics*, and as a member of the editorial board of the *Journal of Accounting Research*, *Auditing: A Journal of Practice & Theory*, and the *Journal of Accounting and Public Policy*.

Professor Simunic also has made significant contributions in both the teaching and service areas. He has served on 12 doctoral committees, chairing eight of these committees. Professor Simunic has been a visiting professor at numerous universities around the world. He chaired the Section's Doctoral Consortium Planning Committee in 2002, and served as a discussant at many AAA Annual Meetings and Section midyear conferences.

On behalf of the Selection Committee, the Executive Committee, and all of our membership, I want to congratulate Dan Simunic on his selection as the 2004 Outstanding Auditing Educator.

Dan Simunic receives the 2004 Outstanding Educator Award presented by Joe Carcello.



2004 Notable Contributions to the Auditing Literature Award

Presented by Arnie Wright

On behalf of the Notable Contributions to the Auditing Literature Award Committee and the Executive Committee, I am very pleased to present this year's award to Professor Michael Gibbins for his co-authored work with Professor James Newton, "An Exploration of Complex Accountability in Public Accounting," which appeared in the Autumn 1994 issue of the *Journal of Accounting Research*.

This year's recipient certainly meets the award's primary criterion as a work possessing exceptional merit that makes a significant contribution to auditing or assurance education, practice, or research. The article explores the nature and complexity of accountability in audit practice by utilizing a novel research method in asking participants to recount their professional experiences. To quote a member of the committee:

This paper takes a risk. The paper is written by authors whose contribution to research is positioned largely in experimental research, yet this paper reveals that the results obtained from the relatively simple tasks often used in behavioral auditing research might not well reflect the actual judgments and decisions made in the working environment. The paper shows that underweighting of external validity can undermine the usefulness of designs intended to unlock behavior in applied settings.

The work thus has had a dramatic impact in promoting a crucial shift towards greater external validity in behavioral auditing research. Further, the method employed has gained acceptance in the auditing literature and has been applied to a number of other audit issues.

In all, this article truly has had a major influence on auditing research and is thus very worthy of this year's award. I congratulate the authors on this significant contribution.



Michael Gibbins receives the 2004 Notable Contributions to the Auditing Literature Award from Arnie Wright.

AWARDS PRESENTED AT THE 2004 MIDYEAR AUDITING CONFERENCE

Outstanding Auditing Dissertation Award

Presented by Stanley F. Biggs

The 2004 Outstanding Auditing Dissertation Award was presented to Dr. Kathryn K. Epps of Mercer University. Professor Bill Messier, Jr. (Georgia State University) was recognized as the dissertation chair. Dr. Epps' dissertation was entitled "Performance Evaluation in Concurring Partner Review: A Test of a Cognitive Model." Five high-quality dissertations were nominated for the 2004 award. The criteria for the award are: the timeliness and importance of the problem(s) addressed, the creativity of the research, the development of an appropriate theoretical framework, the appropriateness of the research method and analysis, the potential for publication in a scholarly journal, and the potential for the results to have an impact on the practice of auditing. By developing and testing a cognitive model of concurring partner review, the committee believes Dr. Epps' research brought a strong theoretical framework and research design to address a very important and timely topic. The Section solicits nominations from the membership by July 1 of each year and the award is presented at the following Midyear Conference. For a copy of her paper, please refer to:

<http://raw.rutgers.edu/raw/aaa/audit/midyear/04midyear/papers/Epps-Messier%20paper.doc>



Stan Biggs presents Kathryn Epps and Bill Messier with plaques for the Outstanding Dissertation Award.

2004 Innovation in Auditing and Assurance Education Award

Presented by Mohammad J. Abdolmohammadi

In 2002, the Section's Executive Committee created the Innovation in Auditing and Assurance Education Award as part of the Committee's efforts to encourage innovation and improvement in auditing and assurance education. The criteria used to judge submissions include innovation, educational benefits, and adaptability by other educational institutions. Nominations may include, for example, a set of teaching materials, a creative instructional strategy, or an insightful teaching approach for a particular topic.

Professor Christine Earley was the recipient of this year's award for inclusion of "Professional Ethics and Ethical Reasoning Skills in an Assurance Services Course." This innovation and an assessment of its learning effects are described in an article titled, "A Note on Ethics Educational Interventions in an Undergraduate Auditing Course: Is There an 'Enron Effect?'" The paper is forthcoming in the special issue of *Issues in Accounting Education* on Professionalism and Ethics.



Christine Earley receives the 2004 Innovation in Auditing and Assurance Education Award from Ali Abdolmohammadi.

HIGHLIGHTS OF 2004 MIDYEAR MEETING SESSION: “The Implications of Current Audit Approaches for Audit Education”

James L. Bierstaker, University of Massachusetts Boston;

Kevin Bouchillon, PricewaterhouseCoopers; and

Steve Glover, Brigham Young University

The purpose of this article is to discuss briefly the highlights of the panel session sponsored by the Audit Education Committee entitled “The Implications of Current Audit Approaches for Audit Education.” Panel members included Kevin Bouchillon, a PwC Partner in the Global Audit Methodology Group and Steve Glover, an accounting professor from BYU. Steve recently completed a two-year “tour” in PwC’s National Office. Kevin explained how PwC takes a top-down, strategic, risk-based approach that drives the entire audit process.* PwC begins with a comprehensive audit tool for examining risks at the client acceptance/continuation phase, known as FRISK, and uses the output of this risk assessment to drive audit planning. Auditors at the manager level and above enter information into FRISK. FRISK calculates a weighted risk score from 11 to 55—any score above 42 is considered higher risk. PwC estimates that, over a six-month period, about 500,000 hours of audit work had been reduced by discontinuing relationships with higher risk clients. However, as discussed below, this has been more than offset by the increased amount of work generated by Sarbanes-Oxley. Interestingly, FRISK generates a lot of false positives by design and it is very difficult for auditors to “work backward” to get the risk score they desire. The conditions that result in a higher risk designation are shared with management and members of the audit committee, and ways or reducing risks are discussed.

PwC expects that everyone on the audit team from the engagement partner to first-year staff will have an understanding of the client’s business and industry. Although managers and partners are expected to have the most sophisticated understanding based on their experience, PwC uses a team-based approach where staff frequently participate in meetings with managers and partners where they are expected to make contributions. Staff also are frequently involved in researching various aspects of the company using PwC’s “Business Analysis Framework” (an audit tool designed to facilitate a thorough understanding of the audit client’s business objectives, risks, industry, competition, strategy, and value-added activities).

Steve pointed out that, while PwC’s approach involves proprietary software and jargon, the approach is what most auditing professors would consider effective risk-based auditing. There has been a movement to strengthen basic audit skills as well as to understand new standards and requirements given the events of

the last few years. PwC’s integrated software improves the linkage between the up-front risk assessment and actual audit procedures. In the past, partners understood the implications of the business analysis and risk assessment, but this understanding was not always conveyed clearly to the staff performing audit testing.

When asked about the use of specialists, Kevin stated that specialists are used based on risk triggers. In addition, he pointed out that, after Sarbanes-Oxley, the mindset has changed regarding the use of specialists—PwC attempts to integrate them more completely into the audit team. As a result of Sarbanes-Oxley, fixed-fee contracts are less common, as it is increasingly difficult to estimate the scope of an engagement in the changing environment. In addition, partner compensation is tied to factors such as audit quality and staff retention, but not audit revenues.

Regarding SAS No. 99, Kevin stated that brainstorming is performed during the audit team kickoff meeting, and that someone on each audit team is responsible for ensuring SAS No. 99 compliance. Additional brainstorming is completed during the “taking stock” phase of the audit. Kevin stated that SAS No. 99 requires more systems time than before to search carefully through journal entries. Staff research on business risks also is important for SAS No. 99.

Kevin indicated that the ability to perform research is one of the most important skills that auditors (and auditing students) should possess. There is so much information needed during an audit that no one can possibly have it all on hand, so they need to know how to use technology to obtain answers. On PwC’s larger clients, someone on the team is assigned to be the team’s knowledge specialist (i.e., staying current with important industry and technical accounting developments and sharing the information with the team). Kevin emphasized that it is very important for auditors to have professional skepticism and develop their own point of view before consulting with management. He also said that auditors should avoid the checklist approach. In addition to effective research skills and professional skepticism, Kevin said that students should have good language and writing skills, and that they should know how to be concise.

* For copies of Kevin’s presentation, go to <http://raw.rutgers.edu/raw/aaa/audit/midyear/04midyear/2004%20Midyear%20Auditing%20Meeting.htm>

AUDITING: A JOURNAL OF PRACTICE & THEORY

Publication Report

William F. Messier, Jr., Editor

December 31, 2003

	<u>1/1/03 – 12/31/03</u>	<u>1/1/02 – 12/31/02</u>	<u>1/1/01 – 12/31/01</u>
Submissions:			
New	72	75	77
Revisions	28	59	20
Total	100	134	97
Decisions made	94	117	86
Accepted for publication	13 (14%)	18 (15%)	11 (13%)
Revise	29 (31%)	41 (35%)	35 (41%)
Reject	52 (55%)	58 (50%)	40 (46%)
Average days for review	33 ¹	37	32

¹ Add 1–3 days to process at submission and 3–10 days to process upon completion of reviews.

Manuscripts in Inventory by Revision Stage

New Submissions	17
R1	11
R2	6
R3	3
R4	0
Inactive	8
Total	<u>45</u>

	<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>
Total Submitted	72		75		77		79
Accepted	1 (1%)		15 (20%)		22 (28%)		15 (19%)
In-Process (Inactive)	45 (63%)		4 (5%)		8(6) (10%)		2(2) (2%)
Rejected	26 (36%)		56 (75%)		47 (62%)		62 (79%)

FOUR PROMINENT MEMBERS OF AUDITING SECTION CITED AS AMONG 60 OF 2004'S INFLUENCERS

People Who Play Key Roles in Shaping the Future of Accounting and Auditing

The January 2004 issue of *Business Finance* magazine includes an article written by Eric Krell, "2004's Influencers: 60 You Need to Know." The magazine's editorial team identified 60 people that it expects to have a significant effect on the U.S. accounting and financial reporting environment in 2004 and beyond. Krell describes these people as "a cluster of stars helping to brighten the fuzzy future."

As stated in the article:

Educators are stepping up to the plate. Several academic research centers focused on governance and financial reporting have cropped up in the past 24 months, and a steady procession of professors have appeared before the SEC, PCAOB and Congress to weigh in on the future of the accounting profession.

Congratulations to Bill Kinney, Zoe-Vonna Palmrose, Joe Carcello, and Jane Mutchler for being named as important academics in this article. To see the full article, go to:

<http://www.businessfinancemag.com/magazine/archives/article.html?articleID=14124>



Dan Simunic

**Selection of Next Editor of
Auditing: A Journal of Practice & Theory—
Dan A. Simunic**

Dan Simunic is the Certified General Accountants' Professor at the Sauder School of Business, the University of British Columbia, Canada. He has also served as Visiting Professor at Washington University in St. Louis, Catholic University Leuven in Belgium, the Stockholm School of Economics, City University in Hong Kong, Hong Kong Polytechnic University, and the University of Technology in Sydney, Australia. Dan also served as international research advisor to the Limperg Institute in Amsterdam, The Netherlands from 1997 to 2002.

Dan obtained a Ph.D. in accounting and economics from the Graduate School of Business, University of Chicago, in 1979. Prior to beginning his academic career, Dan worked in the Chicago office of Ernst & Ernst (now Ernst & Young). More recently, he served for 10 years as a technical advisor from Canada to the International Auditing Practices Committee (now the International Auditing & Assurance Standards Board) of the International Federation of Accountants. Dan served as Co-Editor of *Contemporary Accounting Research* from 1997 to 2000, and is currently the Co-Editor of the *Asia Pacific Journal of Accounting and Economics*. Dan has also served as an Associate Editor of *The Accounting Review*, *Contemporary Accounting Research*, and the *Journal of Accounting & Economics*.

Dan looks forward to beginning his term as Editor of *Auditing: A Journal of Practice & Theory* in 2005, and will strive to build upon the excellent work of prior editors and editorial teams to further enhance the quality and reputation of the journal.

CALL FOR PAPERS

19th *CAR* Conference 2004

**Montreal, Quebec • November 6–7, 2004
(plus Doctoral Consortium on November 5th)**

Building on the successful diversity achieved at the previous three Conferences, *CAR* invites research papers in any area of accounting research, broadly defined (financial, managerial, assurance, and tax) and employing any method (analytical, archival, case, empirical, and survey). The cross-pollination of the different disciplines has proven to be of value to all attendees.

Submissions to the conference also constitute submissions to *CAR*. Therefore, submissions should follow *CAR*'s editorial guidelines. These require submission of one hard copy *and* one electronic copy (Word or PDF), **with a check payable to the CAAA** in the amount of \$100 for CAAA members and *CAR* subscribers, or \$165 for others (dollar amounts are in Canadian funds in Canada and in U.S. funds elsewhere).

Both hard *and* electronic copies must arrive at the *CAR* office no later than April 23, 2004. Papers not accepted for the conference (and submissions that come in after the deadline) will be treated the same as nonconference submissions. Papers accepted for the conference are generally published in *CAR*; however, the ultimate disposition of each manuscript depends on the normal review procedures employed by the journal.

Authors will be notified of the decision regarding the conference agenda by mid-August 2004. Authors will be notified of the outcome of the editorial process for publication in *CAR* in the normal course.

Submissions should be directed to:

Gordon Richardson, Editor — *Contemporary Accounting Research*

Joseph Rotman School of Management, University of Toronto, 105 St. George St., Toronto, ON M5S 3E6 Canada

Phone: (416) 946-8601 • Fax: (416) 971-3048 • Email: car@caaa.ca

AMERICAN ACCOUNTING ASSOCIATION—AUDITING SECTION

Statement of Cash Receipts, Disbursements, and Cash Balance for Years Ended August 31, 2002 and 2003 (Note 1)

	FY 03 2002-03	FY 02 2001-02
RECEIPTS:		
Membership Dues	\$ 49,603.00	\$ 35,172.00
Journal Subscriptions (Note 2)	59,995.00	17,321.50
Sales of Publications/Royalties	2,278.30	2,859.92
Journal Submission Fees	4,500.00	6,054.45
CPE (net)	1,450.00	1,450.00
Reimbursements/Contributions (Note 3)	30,865.62	10,922.68
Midyear Meeting Registration	29,260.00	34,086.00
Interest Income (Note 4)	447.74	809.67
TOTAL RECEIPTS	\$178,399.66	\$108,676.22
DISBURSEMENTS:		
Awards	\$ 1,579.90	\$ 957.50
<i>AJPT</i> - Printing/Distribution	24,669.64	19,399.35
<i>AJPT</i> - Editorial Support	7,770.00	0.00
Newsletter: <i>The Auditor's Report</i> (Note 5)	855.00	720.00
Midyear Meeting	64,224.82	46,506.72
Annual Meeting Costs	904.17	(33.40)
Committee Expenses	3,173.03	404.00
Council Fee	447.74	809.67
Postage and Miscellaneous Exp	1,179.79	594.92
TOTAL DISBURSEMENTS	\$104,804.09	\$69,358.76
Cash Increase (Decrease)	73,595.57	39,317.46
Beginning Cash Balance	54,701.17	15,383.71
Ending Cash Balance (Note 6)	\$128,296.74	\$54,701.17

Notes:

1. The Statement of Cash Receipts, Disbursements, and Cash Balance was compiled from the monthly financial reports received from the American Accounting Association national office.
2. The nonmember rate for *AJPT* increased from \$30 to \$120 effective FY 03.
3. FY 02 receipts represent contributions to the section from KPMG to cover the 02 Midyear Conference (MYC) deficit (\$4, 363.68) and the 02 Doctoral Consortium cost (\$6,559). FY 03 receipts represent the following contributions: \$15,000 from KPMG to partially cover the 03 MYC deficit; \$10,500 from KPMG to partially cover the 03 Doctoral Consortium cost; \$2,000 from McGraw-Hill Irwin for a reception at the 03 MYC; and \$3,365.62 from the University of Southern California for a reception at the 03 MYC.
4. Reflects the allocation of interest income from the AAA headquarters to the section.
5. Because *The Auditors' Report* is now online, the costs include only AAA staff support (e.g., typesetting, layout).
6. \$10,000 per year starting with FY 02 is to be put in escrow to support a 25th anniversary *AJPT* conference. Therefore, \$20,000 of the ending balance as of 8/31/03 is restricted for this purpose.

AMERICAN ACCOUNTING ASSOCIATION—AUDITING SECTION

Comparative Statement of Cash Receipts, Disbursements, and Cash Balance for First Quarter, ended November 30, 2002 and 2003 (Note 1)

(9/1 – 11/30)

RECEIPTS:	FY 03	FY 02	Change
Membership Dues (Note 2)	\$13,161.00	\$20,879.00	(\$7,718.00)
Journal Subscriptions	23,040.00	16,560.00	6,480.00
Sales of Publications/Royalties	253.53	215.51	38.02
Journal Submission Fees	1,350.00	1,200.00	150.00
CPE (net)	1,000.00	500.00	500.00
Reimbursements	0.00	0.00	0.00
Midyear Meeting Registration	11,625.00	6,965.00	4,660.00
Miscellaneous Receipts	43.03	99.49	(56.46)
TOTAL RECEIPTS	\$50,472.56	\$46,419.00	\$4,053.56
DISBURSEMENTS:			
Awards	\$0.00	\$0.00	\$0.00
<i>AJPT</i> - Printing/Distribution	5,000.00	13,168.23	(8,168.23)
<i>AJPT</i> - Editorial Support	0.00	0.00	0.00
Newsletter: <i>The Auditor's Report</i>	0.00	255.00	(255.00)
Midyear Meeting	683.95	0.00	683.95
Annual Meeting Costs	0.00	0.00	0.00
Committee Expenses	0.00	0.00	0.00
Council Fee	0.00	0.00	0.00
Miscellaneous Exp	0.00	114.73	(114.73)
TOTAL DISBURSEMENTS	\$5,683.95	\$13,537.96	(\$7,854.01)
Cash Increase (Decrease)	44,788.61	32,881.04	11,907.57
Beginning Cash Balance	128,296.74	54,701.17	73,595.57
Ending Cash Balance (Note 3)	\$173,085.35	\$87,582.21	\$85,503.14

Notes:

1. The Statement of Cash Receipts, Disbursements, and Cash Balance was compiled from the monthly financial reports received from the American Accounting Association national office.
2. As of December 11, 2002, there were 1,425 full members and 133 associate members: 1,150 were U.S. members and 408 were foreign members. As of January 9, 2004 there were 1,330 full members and 129 associate members: 1,061 were U.S. members and 398 were foreign members.
3. \$10,000 per year starting with FY 02 is to be put in escrow to support a 25th anniversary *AJPT* conference. Therefore, \$20,000 of the ending balance as of 11/30/03 is restricted for this purpose.

Preventing Confirmation Fraud

Brian Fox, CPA, CFE, Capital Confirmation Inc.

Until recently, few people focused on confirmations. Confirmations, now a hot topic, once was considered a simple, relatively low-risk procedure requiring little effort and even less thought. This oversight has been identified by fraudsters, posing a tremendous challenge for CPAs, and providing opportunities for a unique set of fraud schemes that need to be understood by all who participate in the process. At over \$5 billion, the Parmalat fraud is now the largest cash and investment confirmation fraud ever recorded; however, this is not the first time that this type of fraud scheme has been used to falsify financial reports. The infamous ZZZZ Best Carpet Cleaning Company paid a friend \$10,000 to use his address for audit confirmations. Just last year, the Director of Apparel Sales for Adidas America pled guilty to committing confirmation fraud. Motivated by future sales to Just for Feet, he confirmed to Just for Feet's auditors that Adidas owed \$2.2 million, when in reality Adidas owed approximately \$40,000. Below, I will describe how my experience as an auditor has led me to develop a process aimed at preventing confirmation fraud.

During my first year as an auditor for a Big 5 firm, I was content to copy, mail, fax, carry supplies, and perform the typical duties of a first-year staff auditor. As a second-year staff auditor, I sought more responsibility and I was anxious to learn. In fact, I relished knowing that the interns and first-year auditors would be assigned the audit engagement's most mundane and menial audit tasks, one of the worst being confirmations. I was disappointed when both the intern and first-year auditors on my largest client were reassigned because our office was short-staffed and needed those resources elsewhere. Consequently, I had to perform confirmations—again.

As a second-year staff auditor, I began the three-week process of performing confirmations for my largest client; however, I also wanted to understand the purpose of my task. I took solace in our firm's advances in technology—that year Business 2.0 had named us the accounting profession's leader in technology adoption, estimating that we had a two-year lead over our closest competitor. We were very proud of our achievement and I was sure that, with the recent adoption of our electronic audit workpapers and the rapid rise of the Internet, it was only a matter of time before we would perform confirmations electronically. However, that year we still completed them manually. So, as I recreated my confirmation log from the prior year, handed my client a stack of paper forms to fill out as they had done in every year prior, folded paper, stuffed envelopes, and dropped the letters in the mailbox, I began to question what I was doing.

The year before, I was taught that strict procedures must be adhered to when performing confirmations: I could not let the client mail them for me—I had to physically put the letters in a U.S. mailbox myself; the client could not receive the responses, our office must receive them; when I needed to fax a request to get a quick response, if I was at the client site I had to stand over the fax machine and actually watch the form come through the machine for fear that client personnel might intercept the fax and alter the response.

Why did we go to all these lengths to protect the integrity of the confirmation process when the client was the one who provided us the mailing address and contact name and we never

attempted to validate that information? A client could have given us a relative's address and we never would have known. False information could have been sent back and we were placing full reliance on the information—we should not have.

Later, as a consultant for another Big 5 firm, I was asked to act as the audit senior on a number of audit engagements because of my background in auditing. The firm had just rolled out its electronic audit workpapers and, as before, I considered the same issues in the confirmation process and again thought some auditor surely will put a stop to this opportunity for fraud. However, it was not until I attended business school at Vanderbilt that I decided to try to solve the problem myself. With the help of my classmates and professors, I researched the market and developed the business plan. For my internship between my first and second years, instead of the traditional internship, I asked my family and friends for start-up capital and launched Capital Confirmation Inc. to control confirmation fraud.

With those resources, we built the first prototype and beta-tested the service in the market with the assistance of some very forward-thinking bankers and accounting professionals who understood our goal. What has emerged from those first trials is a secure, third-party confirmation service that integrates with a firm's electronic workpapers where all participants to the confirmation are independently authenticated, and the average turn-around time is 24 hours instead of four weeks. Through our research, we found that our service also provides a benefit for the respondents. Respondents tell us that, with the paper-based confirmation process, it is impractical for them to validate the signatures on confirmation requests, just as it is impractical for banks to validate the signature on the thousands of personal checks they encounter every day. Having a trusted source pre-authenticate the CPAs that request confirmations reduces the opportunity for sensitive client information to be inadvertently given to someone posing as a CPA and sending in a false confirmation request.

ABOUT THE AUTHOR

Brian Fox, CPA & Associate Member of the Association of Certified Fraud Examiners, is the founder and vice president of Capital Confirmation Inc. a company in Brentwood, Tennessee that specializes in eliminating confirmation fraud and whose patent-pending process Confirm™ provides independent authentication services to clients.

Prior to Capital Confirmation Brian worked for Ernst & Young LLP and PriceWaterhouseCoopers LLP. He received an M.B.A. from Vanderbilt's Owen Graduate School of Management and a B.B.A. in Accounting from SMU's Cox School of Business. Brian is a member of the AICPA and The Tennessee Society of CPAs where he sits on the Accounting and Auditing Symposium Committee for the Society. He writes and reviews fraud articles and is often a guest lecturer at Vanderbilt. His email address is: brianfox@cashconfirm.com.

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HAVE YOU SEEN...?

Dennis M. O'Reilly, Xavier University; Mike Peters, University of Maryland; Brad Reed, Southern Illinois University Edwardsville; and John T. Reisch, East Carolina University

“An Analysis of Group Influences on Going Concern Audit Judgments,” by S. S. Ahlawat and T. J. Fogarty, *Advances in Accounting Behavioral Research* (Vol. 6, 2003): 27–51.

This study uses a going concern task to investigate whether group dynamics can mitigate judgment bias in an audit setting. The experiment used experienced auditors who made a series of judgments about a firm's going concern (GC) status and recommended the type of report to issue. Judgments were made privately by individuals or collaboratively in groups. The results indicate the judgments of auditors working in groups are less influenced by the order in which information is received and evaluated than those working individually. More specifically, the recency effects of individual decision makers were not present for the same judgments made by groups. Group responses were less extreme and exhibited greater confidence than those of individuals.

“Continuing Dangers of Disinformation in Corporate Accounting Reports,” by E. Kane, *Review of Financial Economics* (Vol. 13, 2004): 149–164.

This paper is critical of what the author argues is the special treatment that the accounting profession has received from the Congress and SEC on regulatory issues. The author argues that external auditing firms earn substantial profits from lending credibility to “loophole-ridden measurement principles that conceal adverse developments from outside stakeholders” and that they lobby regulatory agencies to protect these profits. He further argues that although the Sarbanes-Oxley Act now requires top corporate officers to attest to the “economic accuracy” of their financial reports, this requirement was not extended to outside auditors resulting in a significant asymmetry in obligations and exposure to penalties.

“Institutional Ownership and the Selection of Industry Specialist Auditors,” by U. Velury, J. T. Reisch, and D. O'Reilly, *Review of Quantitative Finance and Accounting* (Vol. 21, No. 1, 2003): 35–48.

This study provides evidence linking corporate governance mechanisms to the choice of audit quality. The authors theorize and test an association between the level of institutional ownership of corporations and the selection of higher-quality audits by those corporations. Institutional investors are likely to invest in companies with high audit quality and to demand higher levels of audit quality in the companies in which they invest. Using audit firm industry specialization as a proxy for audit quality, the results indicate that demand for audit quality is positively associated with the level of institutional ownership of the corporation.

“The Effect of Constrained Processing on Auditor's Judgments,” by V. B. Hoffman, J. R. Joe, and D. V. Moser. *Accounting, Organizations and Society* (Vol. 28, No. 7/8, 2003): 69–714.

The authors examine the effects of manipulating the processing conditions of experienced and inexperienced auditors in going concern judgments. In the constrained condition, auditors processed information in a pre-established sequence and were not allowed to refer back to and reorganize the information. In the unconstrained condition, the information was presented simultaneously and the auditors were allowed to process the information as they chose. The study finds that when the processing of experienced auditors is constrained, they perform similar to inexperienced auditors. When unconstrained, the experienced auditors applied their usual processing strategies and their judgments reflected their expert processing; specifically, the experienced auditors were able to attend to more mitigating evidence in the unconstrained condition. The going concern judgments of the inexperienced auditors did not differ across the conditions.

“An Investigation of the Pricing of Audit Services for Financial Institutions,” by L. P. Fields, D. R. Fraser, and M. S. Wilkins. *Journal of Accounting and Public Policy* (Vol. 23, No. 1, 2004): 53–77.

In this study, the authors investigate audit pricing for financial institutions by modifying standard fee models for industrial companies by incorporating measures of risk and complexity for banks. Using a sample of 277 banks in fiscal 2000, the authors find that firms charge higher fees for banks having more transaction accounts, higher degrees of credit and capital risk, less operational efficiency, and greater involvement in acquisition activity. They also find that banks with more transparent asset portfolios received fee discounts, while entities identified as savings institutions were charged significant premiums relative to other banks. Additionally, the results indicate that because no single auditing firm dominates the banking industry, the top bank auditors were unable to earn fee premiums for their presumably specialized services.

“A Structural Equation Model of Auditors' Professional Commitment: The Influence of Firm Size and Political Ideology,” by J. T. Sweeney, J. J. Quirin, and D. G. Fisher. *Advances in Accounting Behavioral Research* (Vol. 6, 2003): 3–25.

This study investigates five factors posited to affect auditors' professional commitment (PC), where PC is measured using a 15-item scale adapted from an organizational commitment questionnaire. The findings show a negative association between PC and firm size suggesting smaller firms tend to have employees who possess higher levels of professional commitment. The model also finds that the PC of politically conservative auditors is higher than that of liberal auditors suggesting that political ideology is an influential socialization variable in public accounting. In addition, the authors find a positive relationship between

(continued on page 17)

Have You Seen...?

(continued from page 16)

position and professional commitment; specifically, that auditors employed at higher levels exhibit higher levels of PC, although the relationship is not linear. Two factors not found to have a significant association with PC were gender and ethical development (measured as DIT P scores).

“The Effect of Training on Auditors’ Acceptance of an Electronic Work System,” by J. C. Bedard, C. Jackson, M. L. Ettredge, and K. M. Johnstone, *International Journal of Accounting Information Systems* (Vol. 4, 2003): 227–250.

Using data from a large audit firm that was introducing a new electronic workpaper system, the researchers study the role of users’ perceptions of computer and task self-efficacy in system acceptance associated with training. The audit firm provided intensive hands-on training to both preparer and reviewer level employees. The study found that training is associated with shifts in preparers’ perceptions of their task and computer self-efficacy but reviewers’ self-perceptions did not change on average. The results suggest that when training is successful at shifting perceptions, an important mechanism through which training improves system acceptance is through its effect on users’ views of both their task and computer self-efficacy.

“Can Financial Ratios Detect Fraudulent Financial Reporting?” by K. A. Kaminski, T. S. Wetzel, and G. Liming, *Managerial Auditing Journal* (Vol. 19, 2004): 15–28.

This exploratory study involved comparing the financial ratios of 79 companies known to have committed fraud with 79 matched nonfraudulent companies during a period surrounding the fraud year. Out of the 21 ratios examined, 5 were significant during the period prior the fraud year. The results, however, suggest that ratios are of limited use in predicting fraudulent financial reporting. A discriminant prediction model misclassified fraud firms from 58 percent to 98 percent of the time.

“Dimensions of Pressures Faced by Auditors and Its Impact on Auditors’ Independence: A Comparative Study of the USA and Australia,” by A. Umar and A. Anandarajan, *Managerial Auditing Journal* (Vol. 19, 2004): 99–116.

Case studies involving an auditor/client conflict situation were mailed to auditors in both the USA and Australia. Participants’ responses suggest that auditors’ independence of judgment is affected when subjected to pressures. Factor analysis indicates that the pressures that were identified in prior research fall into two dimensions: pressure to retain the client and pressure to conform. In this study, pressure to retain the client had greater influence than did pressure to conform. Further, the results suggest that the underlying dimensions of the pressures are similar for the auditors in these two countries.

“Audit Fee Determinants and Auditor Premiums: Evidence from the Micro-Firm Sub-Market,” by M. J. Peel and R. Roberts, *Accounting & Business Research* (Vol. 33, No. 3, 2003): 207–233.

This paper provides theory and evidence relating to audit pricing for smaller audit clients. The sample is drawn from the

smallest companies operating in the U.K. manufacturing sector (i.e., manufacturing firms employing fewer than 10 employees), which are known as micro-firms. A key finding of the study is that, in the highly competitive market under consideration, independent small audit clients willingly paid a premium to be audited by a Big 6 auditor. The authors also find that the fee premium existed (although to a smaller extent) for midtier audit firms. The authors conclude that the fee premium is attributable to the perceived higher quality audits conducted by large auditors, for which small firms are willing to pay a premium to obtain associated reputational and signaling benefits. The authors find that, consistent with studies of larger firms, corporate size is found to be a key driver of audit fees.

“Audit Quality, Earnings, and the Shanghai Stock Market Reaction,” by F. A. Gul, S. Y. J. Sun, and J. S. L. Tsui, *Journal of Accounting Auditing & Finance* (Vol. 18, No. 3, 2003): 411–428.

This study examines whether audit quality in the Shanghai Stock Exchange affects the positive association between change in earnings per share and a firm’s cumulative abnormal return. The authors find that the positive market reaction to an increase in earnings is stronger for firms audited by high-quality auditors. While most studies in the U.S. have identified Big 5 auditors as high-quality auditors, this classification cannot be used in China, because many companies are audited by domestic CPA firms. The authors use market share of CPA firms to proxy for audit quality and conclude that audit quality plays an important role in China and that investors in the Shanghai market differentiate between high- versus low-quality auditors.

“Congress Enacts Sarbanes-Oxley Act of 2002: A Two-Ton Gorilla Awakes and Speaks,” by J. Wiesen, *Journal of Accounting Auditing & Finance* (Vol. 18, No. 3, 2003): 429–449.

This article describes the Sarbanes-Oxley Act and compares the Sarbanes-Oxley Act to the Federal Securities Acts. The article provides interesting insights into the Sarbanes-Oxley Act; for example, the author notes that lawyers had managed to stay out of the securities laws for 70 years, but the Sarbanes-Oxley Act places a whistle-blowing responsibility on lawyers. Lawyers now have to report to the CEO or the board “evidence of a material violation of securities law or breach of fiduciary duty.” Another interesting aspect of the Sarbanes-Oxley Act is the series of studies commissioned by the Act. The author notes that there never has been, nor is there likely to be, other legislation requiring so much homework. For example, the Act requires the SEC to study its enforcement actions over the previous five years “to identify areas of reporting that are most susceptible to fraud, inappropriate manipulation, or inappropriate earnings management, such as revenue recognition and the accounting treatment of off-balance sheet special purpose entities.”

“Exploring the Term of the Auditor-Client Relationship and the Quality of Earnings: A Case for Mandatory Auditor Rotation?” by J. N. Myers, L. A. Myers, and T. C. Omer, *The Accounting Review* (Vol. 78, No. 3, 2003): 779–799.

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Have You Seen...?

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This study examines the relationship between auditor tenure and audit quality. Prior research has not examined this issue in detail, and it has been a hot political topic because Sarbanes-Oxley requires the Comptroller General to study the issue. The authors measure audit tenure as the number of years of the auditor-client relationship. The proxy for audit quality is abnormal discretionary accruals, consistent with prior financial reporting research. The results suggest that auditors place greater constraints on both abnormal income-increasing and income-decreasing accruals as auditor tenure increases. That is, these accruals decrease with longer audit tenure. The authors conclude that audit and earnings quality do not appear to decline with audit tenure. These results are robust to firm size, age, and cash flow performance.

“An Examination of Memory Conjunction Errors in Multiple Client Audit Environments,” by D. L. Lindberg and M. M. Maletta, *Auditing: A Journal of Practice & Theory* (Vol. 22, No. 1, 2003): 127–141.

This study examines whether memory on an audit is adversely impacted by a previous audit. Because auditors work on several audits at the same time, a problem may arise if their memory reconstruction process from a current audit recalls items from a previous audit. An experiment was conducted in which auditors first evaluated audit work performed on the inventory account for two separate companies. Next, auditors were given recognition tests for one (the target) company. These tests included features from the target company, the nontarget company, and features that were not included in any of the previous two company descriptions. The authors manipulated inherent risk (high/low) and similarity between target and nontarget companies (similar/dissimilar). The results suggest that auditors commit significantly more recognition errors when audit evidence that is recalled from an unrelated audit is consistent with features of the target company as opposed to when evidence is inconsistent. The authors propose several strategies for audit firms to address this issue during audits.

“Risk Management in Client Acceptance Decisions,” by K. M. Johnstone and J. C. Bedard. *The Accounting Review* (Vol. 78, No. 4, 2003): 1003–1025.

This paper examines whether auditors apply risk-management strategies to bring the risk/return levels of prospective high-risk clients to acceptable levels. The authors use data from a large audit firm on client acceptance decisions made in actual practice. The authors propose a theory and a conceptual model of the client-acceptance process and then test the model using the data from this audit firm. The results suggest that auditors employ risk-management strategies to retain clients that would otherwise be too risky or provide an inadequate return. Auditors employ one of two risk-management strategies, depending on the type of risk: auditors charge higher billing rates when the audit client is a higher going-concern risk or is a public firm and assign specialist personnel when the audit client has a high risk of errors and/or fraud. The authors discuss how these results can

help clarify recent research on audit firm portfolio management decisions.

“A Longitudinal Field Investigation of Auditor Risk Assessments and Sample Size Decisions,” by R. J. Elder and R. D. Allen, *The Accounting Review* (Vol. 78, No. 4, 2003): 983–1002.

This study examines changes in auditor risk assessments and sample sizes between 1994 and 1999. The data over this five-year interval was collected from three large accounting firms. While prior research has examined the relationship between risk assessments and planned audit hours, it has not examined whether such assessments are associated with the extent of evidence (i.e., sample size). Consistent with the audit risk model, the results suggest that a significant relationship exists between inherent and control risk assessments and sample size. This result was more pronounced in the earlier years of the 1994–1999 time period. The authors also found that risk assessments and sample sizes decreased during this time period. Follow-up discussions with personnel at the three firms suggest that this decrease may in part be attributable to increased competition among audit firms.

“Materiality Uncertainty and Earnings Misstatement,” by E. Patterson and R. Smith, *The Accounting Review* (Vol. 78, No. 2, 2003): 819–846.

The authors examine a game-theoretic model of the auditor/client relationship in which the materiality threshold is uncertain. They find that increasing the uncertainty about whether an earnings misstatement is material induces conservatism on the part of the auditor. This, in turn, induces the client to limit earnings misstatements. Audit risk, however, may increase or decrease as a result, because the change in auditor strategy may not fully compensate for the overall increase in risk.

The Assessment of Task Structure, Knowledge Base, and Decision Aids for a Comprehensive Inventory of Audit Tasks, by M. J. Abdolmohammadi and C. A. Usoff (Quorum Books, 2001).

The authors develop, from several different sources, a comprehensive inventory of audit tasks organized by phase of the audit. For each task, highly experienced auditors assessed the level of structure of the task, the amount of experience required to perform the task independently, and the type of decision aid that might be suitable to support the task. The results of these recent assessments for 433 audit tasks were compared to similar assessments made by auditors for a smaller number of tasks in Abdolmohammadi's (1999) study. Also, while Abdolmohammadi (1999) collected data on rank of the auditor required to perform the task, this study collected years of experience and the number of supervised instances of practice before an auditor is viewed as qualified to perform the task. The comprehensive reporting of these audit task assessments provide useful data for auditing researchers, students, and professionals to better understand the nature of, and knowledge requirements for, audit tasks at a detailed level.

Finally, the latest issue of the IIA Educator newsletter is available online:

<http://www.theiia.org/newsletter/index.cfm?iid=238>

“Have You Seen These Instructional Resources?”

Education Committee of the Auditing Section of the AAA
(Donald E. Tidrick, Chair; Michael D. Akers, James Bierstaker, Susan Parker,
Pamela B. Roush, Charles W. Stanley, and C. William Thomas)

Students frequently are introduced to internal auditing through auditing and assurance courses. Because the focus of most auditing and assurance textbooks typically is on external auditing, internal auditing often receives rather cursory treatment. However, this broad topic is receiving renewed attention in the Sarbanes-Oxley era. The Education Committee has compiled the following set of instructional resources related to internal auditing that we believe may be useful to Section members wishing to enrich their coverage of internal auditing. These materials include videos, links to various websites, and selected articles that are available electronically. Many more articles of interest can be found by searching the accounting (and nonaccounting) literature—a quick Internet search for “internal auditing” on Google.com identifies about 117,000 entries, and ABI/Inform identifies more than 3,400 items.

We hope that our efforts will 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. As always, we welcome your comments and suggestions.

List of Educational Resources for Internal Auditing

Format	Title	Date	Source	Description	How to Obtain
Video (VHS)	<i>Road 2 Success</i>	1998	Institute of Internal Auditors	Introduction to internal auditing careers featuring the varied duties and responsibilities of the internal auditor. (Approximately 12 minutes)	The video is available for purchase at \$10.00 each (including shipping) or can be borrowed from the Academic Relations Department of the IIA. For more information, email Nicki Creatore at ncreatore@theiia.org, Academic Relations, or call her at (407) 937-1356
	[Related brochure is available in electronic form]				http://www.theiia.org/iia/index.cfm?doc_id=216
Website	Various	Current	Institute of Internal Auditors	Extensive resources related to internal auditing, including some publications, guidance, and useful general information such as “All in a Day’s Work.”	http://www.theiia.org http://www.theiia.org/iia/index.cfm?doc_id=4061
Website	Various	Various	Institute of Internal Auditors	Resources for educators, students, and affiliates—see the 2002 PPT presentation developed by the IIA’s Academic Relations Committee, entitled “What is Internal Auditing?”	http://www.theiia.org/iia/index.cfm?doc_id=272 http://www.theiia.org/iia/index.cfm?doc_id=214 http://www.theiia.org/abouttheiia/academic/arc2002.ppt
Website	Various	Current	<i>AuditNet</i> , by Jim Kaplan, CIA, author and internal auditor	Numerous free resources, including links, audit programs shared by IA professionals, monthly newsletter, and “Ask the Auditor” page.	http://www.auditnet.org

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Format	Title	Date	Source	Description	How to Obtain
Newsletter	<i>The Internal Audit Newsletter</i>	Fall 2003 (Vol. 1)	PwC	PwC initiated the firm’s first newsletter on internal audit issues. It includes articles, links, and other information of interest from a Big 4 firm’s perspective.	http://www.pwcglobal.com/extweb/service.nsf/docid/AE1CDEDEAB205EB685256D9C005E05F3
Website	Various	Current	Protiviti	Protiviti provides services related to business risk, technology risk, and internal auditing. It is owned by Robert Half, International. Protiviti offers a variety of resources on its website, including a free newsletter. Of particular interest, it offers a 30-day free trial for individuals and groups to <i>KnowledgeLeader</i> , an extensive repository of tools, best practices, and information relevant to internal auditing.	http://www.protiviti.com http://www.protiviti.com/knowledge/newsletters/bulletin.html http://www.protiviti.com/knowledge/knowledgeleader.html or http://www.knowledgeleader.com
Website	Various	Current	Jefferson Wells International	Jefferson Wells provides services related to risk, controls, compliance, and process improvement. The website includes a number of position papers of interest.	http://www.jeffersonwells.com http://www.jeffersonwells.com/inet/sarbanes/WhitePapers.asp
Article	“Internal Audit: Active Ingredient in Reform Mix,” by Cynthia W. Vallario	June 2003	<i>Financial Executive</i> (pp. 26–28)	This article presents internal auditing as “a strategic partner in corporate governance” that can help with the challenges of complying with Sarbanes-Oxley.	http://www.fei.org/mag/articles/6-2003_audit.cfm
Article	“Persons of the Year 2002,” by Richard Lacayo and Amanda Ripley “The Night Detective,” by Amanda Ripley	Dec. 2002	<i>Time Magazine</i>	Cynthia Cooper, Coleen Rowley, and Sherron Watkins were recognized for their personal courage in dealing with difficult organizational circumstances, involving WorldCom, the FBI, and Enron, respectively. Cooper’s remarkable story is a positive reflection on the internal auditing profession.	http://www.time.com/time/personoftheyear/2002/poyintro.html http://www.time.com/time/personoftheyear/2002/poycooper.html

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<u>Format</u>	<u>Title</u>	<u>Date</u>	<u>Source</u>	<u>Description</u>	<u>How to Obtain</u>
Article	“If Capitalists Were Angels,” by Nancy Hala	April 2003	<i>Internal Auditor</i> (pp. 38–43)	Sherron Watkins (former Enron vice president and <i>Time</i> ’s co-person of the year 2002) shares her views about corporate governance and the role of internal auditing.	Full text available on ABI/Inform
Article	“One Right Path,” by Michael Barrier	Dec. 2003	<i>Internal Auditor</i> (pp. 52–57)	Cynthia Cooper (former MCI vice president of internal audit and <i>Time</i> ’s co-person of the year 2002) shares her views about corporate governance and the role of internal auditing.	Full text available on ABI/Inform
Article	“A Profession in Demand,” by Lynn Koller	June 2003	<i>Internal Auditor</i> (pp. 42–49)	The focus on corporate governance issues bodes well for career opportunities in internal auditing.	Full text available on ABI/Inform
Article	“The Artful Interviewer,” by Christina Brune	April 2003	<i>Internal Auditor</i> (pp. 25–27)	This brief article was presented as the “Back to Basics” column. It provides useful guidance to students and auditors (internal or external) in making skillful inquiries of auditee personnel.	Full text available on ABI/Inform
Article	“Diligent to the End,” by Courtenay Thompson	Oct. 2003	<i>Internal Auditor</i> (pp. 75–77)	Each issue of <i>Internal Auditor</i> contains a “Fraud Findings” column. This installment provides a case study with useful insights for students.	Full text available on ABI/Inform
Book	<i>A Decade of Model Internal Audit Case Summaries</i> , by Hubert D. Glover and James C. Flagg	1997	Institute of Internal Auditors	A book comprised of more than 140 cases published in the <i>Internal Auditor</i> ’s “Fraud Findings” or “Roundtable” columns over a 10-year period. These case studies are organized by 12 issues.	Cost is \$7 (whether or not an IIA member). Obtain by calling (770) 442-8633, ext. #275; by email at iiapubs@pbd.com or by using the IIA’s online order form: http://www.theiia.org/iiaindex.cfm?act=form.bookstore

American Accounting Association — Auditing Section

Auditing Standards Committee

November 17, 2003

Office of the Secretary

Public Company Accounting Oversight Board

1666 K Street, N.W.

Washington, D.C. 20006-2803

RE: Invitation to Comment on PCAOB Rulemaking Docket Matter No. 008

Dear PCAOB:

The Auditing Standards Committee (ASC) of the Auditing Section of the American Accounting Association welcomes the opportunity to comment on the proposed auditing standard, *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. Overall, we believe that the proposed auditing standard is very clear and quite sound in its logic and requirements. We commend the PCAOB for its thoughtful consideration of the many issues involved in reporting on internal control.

The comments below are organized around the 31 questions posed in Release No. 2003-017. We conclude with other comments that are not directly tied to the questions posed.

We particularly call your attention to the following issues, as they reflect our most substantive suggestions:

- Controls in smaller companies (question 4)
- Reliance on the work of others (question 13)
- Definition of significant deficiency and material weakness (question 17)
- Evaluating the audit committee's oversight (questions 22–24)
- “Except for” opinions (question 26)
- Controls over quarterly reports (question 31)
- The definition of internal control over financial reporting (other comment #1)
- Heavy focus on control activities (other comment #2).

No. Question Topic

Response

1 Use of “audit of internal control over financial reporting”

Based on the content of the proposed standard, we believe that this terminology appropriately conveys the nature of the auditor's work. However, we do believe that it is important to prominently highlight that the auditor is attesting to management's assertion about internal control effectiveness. If this notion is not prominently highlighted, we believe that there is the potential for an expectation gap to be created (e.g., some may believe that the auditor is almost solely responsible for statements regarding the company's internal control over financial reporting).

2 Prohibiting internal control audit in absence of financial statement audit

We believe that it is appropriate to require the auditor performing an internal control audit also to perform the financial statement audit. The knowledge gained in the financial statement audit is a key input to the internal control audit.

3 Requiring only work *comparable* to a financial statement audit

We prefer the requirement that the auditor actually perform the financial statement audit, as this will better ensure that the auditor has more complete information about the quality of the company's financial statements and disclosures.

4 Internal control in small companies

We have significant concerns with the discussion of internal control in smaller public companies. Research (see Beasley, Carcello, and Hermanson, *Fraudulent Financial Reporting: 1987–1997, An Analysis of U.S. Public Companies*, COSO, 1999) indicates that financial statement fraud among U.S. public companies is concentrated among smaller companies, those with assets and revenues under \$100 million. In addition, in over 80% of public company fraud cases, the CEO and/or CFO were implicated in the fraud. However, a pervasive theme of the discussion in the proposed standard is that oversight by ethical top managers may reduce the need for “elaborate internal control systems” in smaller companies. Since small-company accounting fraud typically is perpetrated by CEOs and CFOs, we are concerned that executive-level oversight in such organizations may provide very little protection and may give auditors a false sense of security. In a sense, to prevent fraud, the auditor would be relying on the oversight of the most likely perpetrators. As a result, we question the extent to which executive-level oversight can be an effective substitute for more traditional internal controls.

On a related note, if an auditor were to conclude that ethical, executive-level oversight was an appropriate substitute for more extensive internal control systems in a small company, we believe that it would be imperative for the auditor to perform significant procedures to assess the ethical orientation of the executives. In the absence of a specific requirement along these lines, we are

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concerned that many auditors may be inclined to simply state that their small audit clients have effective controls because the CEO and/or CFO are keeping a close eye on the day-to-day operations—without any formal assessment of whether it is reasonable to rely on the oversight of these individuals. We recognize that there are requirements to evaluate the control environment, but we suggest being quite explicit about the auditor’s responsibility for assessing top-management integrity and values in cases where management oversight is being viewed as an effective form of internal control.

Overall, given the concentration of fraud in smaller public companies (and apparently committed largely by CEOs and CFOs), we would strongly prefer to see more focus on formal internal controls in smaller companies. This focus on small company internal controls would be consistent with the SEC’s and stock exchanges’ decision ultimately to extend recent audit committee reforms to most public companies, rather than exempting those companies with market capitalizations under \$200 million.

5 Specifying level of competence and training

We believe that a general statement about the level of competence and training would be appropriate. We recommend including language such as “sufficiently” trained and experienced within the body of the standard. Given that the PCAOB conducts quality reviews of registered firms, we recommend avoiding specific guidelines and instead recommend that the Board focus on competence and training in its quality control efforts.

6 Scope of audit of internal control

We agree with the proposed scope of the audit of internal controls. We believe that it is important for the auditor to obtain direct evidence on the effectiveness of internal controls in addition to evaluating management’s assessment method.

7 Criteria for evaluating management documentation

We believe that it is appropriate to provide criteria for evaluating management’s internal control documentation. Sound documentation is the first step to understanding controls and ultimately assessing their effectiveness. We do encourage the Board to provide examples that auditors could refer to when evaluating management’s documentation.

8 Inadequate documentation as deficiency, significant deficiency, or material weakness

We appreciate the need for auditor judgment in this area and do not believe that inadequate documentation should automatically rise to the level of a significant deficiency or material weakness.

Inadequate documentation, and the deficiencies associated with it, should be assessed on a case-by-case basis by the auditor. As a practical matter, we believe that inadequate documentation, in many cases, will rise to at least the level of a significant deficiency. If the controls are not properly documented (i.e., not properly understood by management), then it seems there would be at least “more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential in amount will not be prevented or detected.”

9 Requiring walk-throughs

We strongly agree with the requirement regarding walk-throughs. However, it would be helpful to provide more guidance about the extent of walk-throughs. For example, is one walk-through for each significant process sufficient? (See paragraphs 79–83.) Also, additional guidance on how to perform walk-throughs for control environment issues would be helpful. Finally, we suggest including more explicit language regarding where walk-throughs should begin. Because many information systems at public companies are interconnected and driven by relational databases, identifying the starting point might be difficult. We are concerned that auditors will start the walk-through at the point where traditional accounting transactions begin, without moving backward in the process to where the transaction is first initiated. As an example of the complexities involved, under many of the strategic alliance agreements that exist, companies interface their information systems such that transactions initiate at another entity. In such cases, we suggest requiring auditors to begin walk-throughs at alliance partner locations when necessary to understand relevant controls that impact financial reporting.

10 Requiring walk-throughs to be performed by auditor himself or herself

We agree with requiring the auditor to perform the walk-through himself or herself.

11 Obtaining evidence of control effectiveness each year versus using prior year evidence to support current year conclusion

We agree that “each year’s audit must stand on its own.” Information from prior-year audits (particularly related to control design) may be an important input into the current year audit, but we do not believe that it can provide the basis for the current year opinion. The same is true for financial statement audits—last year’s substantive testing of Accounts Receivable does not allow the auditor to skip Accounts Receivable this year. However, the extent of evidence needed should be reduced if the auditor is comfortable that no significant changes occurred in the design or implementation of a control from a prior year. Finally, we are unclear about the substance of the change to “relevant assertions” from “significant controls” and how this resolves the “so-called ‘rotating tests of controls’ issue.” We suggest that the Board more clearly explain this issue.

12 Using the work of management or others

We do not believe that the auditor ever should be required to use the work of others, and we believe that reliance on such work should always be permitted (although the extent of reliance may be required to vary—see question 13 below). We encourage the Board to consider more carefully defining what constitutes the work of management and others, including a listing of “other” parties who may be considered appropriate.

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13 Appropriateness of three categories of controls and extent of auditor reliance on others

The three-tiered approach described in the standard (i.e., controls for which auditor cannot rely, controls for which auditor's reliance is limited, and controls for which auditors can rely) generally seems appropriate. However, we are not fully supportive of having a no-reliance category. We understand that some controls (like those in the control environment) are critical. However, even for these critical controls, we believe that the auditor should be able to gain some assurance from work performed by management/internal audit. Granted, the external auditor would need to carefully limit reliance in these areas, but should not be completely prohibited from some degree of reliance. Further, we wonder whether it makes sense to discuss the reliance issue from the perspective of the work performed at interim versus the "as of" date. For example, to what extent can an auditor rely on interim work by others that is supplemented with the auditor's own work at year-end?

14 Appropriateness of recognition of internal audit work

We believe that the recognition of internal audit is adequate. However, as indicated above, we do not believe it is appropriate to completely prohibit reliance on internal audit's work in some areas, if in fact they have met the quality standards put forth in SAS No. 65.

15 Appropriateness of flexibility in determining reperformance of others' testing

Overall, allowing flexibility in determining the extent of reperformance seems appropriate. Using professional judgment, auditors should be able to decide how much work to reperform, and the conditions under which they should reperform the work. Further, this flexibility should be helpful in terms of concerns about fraud detection—if reperformance is "random" or based on auditors' perceptions about client risk or internal control weaknesses, then there is more of a "surprise" element to the internal control audit, which we believe is appropriate. Having said this, we note that an earlier report by the POB suggested that the level of testing of internal auditors' work when relied upon in a financial statement audit was inadequate in many of the audits they reviewed. Without being specific as to testing requirements (e.g., reperform some tests of all significant accounts) we have some concern that reperformance levels may be too low. We encourage the Board to rely on its quality reviews of registered firms to assess the sufficiency of reperformance and to provide more specific guidance if needed.

16 Auditor obtaining the principle evidence

We agree that the auditor should obtain the principle evidence, but we encourage the Board to more carefully define the concept of principle evidence.

17 Definitions of significant deficiency and material weakness

We have some concerns related to these definitions. First, we anticipate uneven application/interpretation of these definitions. Perhaps moving to a model using terms such as "low, medium, or high" risk of misstatement would result in more consistent application, given that these are commonly used terms. Second, we are concerned that negotiations between auditors and clients will result in some weaknesses being "bargained down" to significant deficiencies so they will not be publicly disclosed. As a result, we wonder whether there would be merit to requiring public disclosure of *both* significant deficiencies and material weaknesses.

18 Examples in Appendix D

We found these examples to be helpful. However, we would like to see some discussion about the example of a material misstatement in the financial statements not being initially identified by the company's internal controls. Often, material misstatements identified by the external auditor are in the accounts that are estimates (e.g., allowance for doubtful accounts). Would misstatements identified by the auditor for these accounts be considered significant deficiencies (and possibly material weaknesses)? Or would it depend on whether the process management used to come up with the estimate was reasonable? Providing more discussion on this topic would be useful.

19 Necessity of evaluating all internal control deficiencies

We agree that all internal control deficiencies need to be evaluated. In addition, we recommend that the Board consider utilizing the risk management literature (as COSO has done for its Enterprise Risk Management Framework) to help in making these assessments. Auditors can assess the probability and magnitude of the risk of material misstatement given the control weakness as inputs into determining the severity of the control deficiency. Auditors can base their evaluation of the deficiency on measures such as the expected impact of the deficiency (computed as probability of misstatement times the impact). The assessments of severity ultimately should be based on professional judgment, but utilizing a framework to help in making that judgment helps to improve consistency.

20 Communicating all internal control deficiencies to management in writing

We agree that all internal control deficiencies need to be reported to management in writing.

21 Strong indicators of material weakness

We agree that these factors all reflect likely material weaknesses. However, we are concerned that the list of circumstances in paragraph 126 of the standard might lead to auditors not considering other circumstances. We recommend that the Board include language at the beginning of the paragraph very clearly stating that other circumstances may exist that should lead auditors to the same conclusion.

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22 Appropriateness of auditor evaluation of audit committee oversight

We believe that it is appropriate for the auditor to evaluate the effectiveness of audit committee oversight—as part of both the internal control audit and the financial statement audit. Research clearly indicates that stronger audit committees are associated with reduced financial reporting risk. In addition, the literature (e.g., Beasley 1996 and others) also draws a strong linkage between overall board quality, particularly independence, and the risk of financial reporting problems. As a result, we encourage consideration of whether the auditor also should be specifically required to evaluate the overall board’s oversight effectiveness when performing internal control or financial statement audits.

Having said this, we do appreciate the practical and other concerns (see question 23 below) related to this requirement. In light of these concerns, one radical and perhaps cost-prohibitive suggestion is to require a second audit firm to perform the audit committee assessment on a less frequent basis (e.g., every 3–5 years).

23 Ability of auditors to effectively carry out responsibility to evaluate audit committee

We anticipate that this requirement could raise some significant issues in practice. The audit committee will both hire and be evaluated by the auditor. It certainly would be awkward in situations where the auditor concludes that the audit committee’s oversight is ineffective, especially since this would be a specific criticism of the three or four members of the audit committee. In the past, investors were concerned that the auditor was hired by management and audited management’s books. In a sense, that has been replaced by the auditor being hired by the audit committee and auditing the audit committee’s oversight. In both instances, there is a conflict of interest for the auditor that must be recognized and managed.

In today’s environment, many investors may not believe that auditors can effectively carry out this responsibility from an appearance standpoint, if not from a fact standpoint. We call the Board’s attention to press reports associated with the release of this proposed standard. Articles in major publications quickly noted that auditors would be evaluating those who hire and fire them.

Going beyond the human/perception issues, we wonder whether there are liability concerns that may substantially limit the instances where an auditor cites ineffective audit committee oversight as a material weakness. For example, would an adverse internal control opinion citing inadequate audit committee oversight trigger shareholder suits against the directors? We encourage careful consideration of such issues.

24 Implications of audit committee representing material weakness

Given the concerns expressed in question 23 above, as a practical matter, we believe that the most likely outcome is that auditors simply will not accept/continue serving audit clients whose audit committees are ineffective. We would expect to see very few internal control opinions that cite inadequate audit committee oversight.

Also, we question how requiring an auditor who has knowledge of a material weakness (sufficient to issue an adverse opinion) to withdraw from an engagement serves the public interest. Under the general standard of due professional care, we argue that an auditor with knowledge of ineffective audit committee oversight should issue an adverse opinion rather than be required to withdraw.

25 Material weakness requiring adverse opinion from auditor

We strongly agree that the presence of a material weakness must result in an adverse internal control opinion. In addition, we recommend that the Board discuss more explicitly in the standard the extent to which companies can fix controls that have been identified as significantly deficient in order to avoid an adverse opinion. For audits of financial statements, the threat of an adverse opinion traditionally has served as an important control to ensure that financial statements are corrected prior to being issued to the public. Based on our reading of the exposure draft, we are unclear on precisely to what extent this process is possible when auditing management’s assessment of internal control.

26 Appropriateness of qualified “except for” auditor opinion

We do not believe that qualified “except for” opinions should be allowed in the presence of material weaknesses because the definition of material weakness states that there is “more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.” In such a case, we believe that internal control is, by definition, not effective—the company would not have “reasonable assurance regarding the reliability of financial reporting.”

In addition, we are not convinced that internal control can be compartmentalized very well. If there is a material weakness with one aspect of internal control, it is possible that the effects of this issue could permeate other areas. Again, overall internal control would not be effective. Given the above concerns, our view is that the presence of a material weakness should automatically result in an adverse internal control opinion.

Finally, based on the spirit of the Sarbanes-Oxley Act in requiring adverse opinions for any material weakness, it might be most consistent to require disclaimers of opinion in any condition in which a material scope limitation exists. Under this line of reasoning, there would be no circumstances under which a qualified “except for” opinion should be allowed.

27 Auditor speaking directly to internal control effectiveness for non-standard opinions

We believe that requiring the auditor to speak directly to internal control effectiveness in such situations provides the most informative, least confusing reporting.

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28 Providing specific guidance on independence and internal control-related non-audit services

If possible, it would be useful to add such guidance. For example, could the audit firm help in documenting the client's internal controls? Could the audit firm provide guidance on the internal control assessment process that management employs? We believe that many companies are hoping to be able to look to their external auditors for guidance on this whole process (including documentation requirements, number of items to test, etc.). If there are activities that the Board believes should not be performed, they should be specified in the standard. Without specific guidance, some firms, offices, or individuals may find themselves stepping over the line. Having said this, if this suggestion would result in significant delays in issuing the standard, then this issue could be addressed in subsequent standards.

29 Specific internal control-related non-audit services to prohibit

Please refer to question 28 above for some of the services that may be prohibited.

30 Auditor responsibilities for quarterly certifications—4th quarter versus other quarters

Please refer to question 31 below regarding concerns over quarterly controls. In addition, we encourage the Board to work with the SEC to reconsider the decision to shorten the period for when the quarterly reports are due. Accounting firms were severely challenged when trying to meet the shorter deadlines for one review. It seems quite burdensome to potentially double the requirements on a quarterly basis without enabling a sufficient amount of time to effectively conduct both reviews.

31 Auditor responsibilities for quarterly certifications—appropriateness of scope

We have a significant concern related to internal controls over quarterly reporting, and we recognize that our concern actually ties back to the wording in the Sarbanes-Oxley Act and related SEC rules. Research (see Beasley, Carcello, and Hermanson, *Fraudulent Financial Reporting: 1987–1997, An Analysis of U.S. Public Companies*, COSO, 1999) indicates that financial statement fraud among U.S. public companies often begins in quarterly financial statements. A common pattern among the approximately 200 frauds studied was a fraud beginning in the first quarter of year 1, growing through the second, third, and fourth quarters of year 1, and then progressing through the first three quarters of year 2 (the typical fraud length was approximately two years, and a few frauds only involved interim periods).

Our concern is that the 21-month fraud above would involve the misstatement of seven periods' financial statements (six quarters and one annual period), but only one of these seven periods (the annual period) is directly covered by the internal control reporting requirements (i.e., as of the end of the fiscal year). In other words, if management and the auditor have an obligation only to assess internal control effectiveness as of the end of the fiscal year, has the door been left somewhat open to allow fraud to occur during the first three quarters of the year? This may be the case if the controls over preparation of the quarterly financial statements are not as extensive or effective as the controls over annual financial statement preparation. While the definitions of "significant deficiency" and "material weakness" both refer to interim and annual misstatements, we are unclear how interim reporting risks can be evaluated effectively if controls over interim reporting are not extensively tested.

In light of these concerns, we encourage more consideration of how to address internal control effectiveness in the first three quarters of the year. Again, we do recognize the constraints of the Act and the related SEC rules.

Other comments:

1. *Definition of internal control* – This comment also is offered recognizing that the Board is operating within the constraints of the Sarbanes-Oxley Act and related SEC rules on internal control reporting. The use of "internal control over financial reporting" seems to imply that there are different controls over operations and financial reporting. Under many of the information systems being utilized by publicly traded companies, a common information system is utilized for operations and financial reporting. We suggest that the Board consider wording along the lines that the assurance is over any controls at the organization that can reasonably be expected to impact financial reporting. While this language change may appear subtle, we recommend avoiding any language that suggests there are multiple types of internal control. Rather, internal controls at an organization help to manage various risks at the organization, some of which have a direct impact on financial reporting. Other controls might only have an indirect impact on financial reporting (e.g., a lagged impact or an impact on another part of the organization that directly impacts financial reporting). While the standard provides the definition of internal control over financial reporting in paragraph 6, we are concerned that many controls related to key risks at the organization might not be investigated. The source of this concern is deciding when an internal control over financial reporting is *initiated*. For example, ineffective controls related to the customer service business process might impact the estimation process for warranties or recalls. However, under the proposed standard, it is not clear whether this control would fall under the proposed definition. This same problem is contained in the COSO (1992) framework that is used as background for this standard in paragraphs 13–14.
2. *Heavy focus on control activities* – The proposed standard seems to be focused more on the control activities component of COSO than on the other components. Our concern with this focus is that auditors are likely most familiar with the control activities component of COSO and would probably benefit from more direction, guidance, and examples related to the other four components of internal control (especially those that focus on entity-wide controls, rather than those that focus on initiating, recording, processing, and reporting transactions). For example, in the paragraphs discussing documentation (beginning with paragraph 43),

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- there is not a lot of guidance as to what would be included in the documentation of the elements of the control environment (e.g., what should be documented about integrity of management, management's operating philosophy, etc.). Similarly, in Appendix B, all of the examples related to extent of testing seem to focus on control activities. It would be helpful to have some examples for control environment controls, and others. The same applies to the examples provided in Appendix D.
3. Issues related to testing control effectiveness
 - a. The discussion in paragraph 85 mentions that procedures used to test design effectiveness include inquiries, observations, and walk-throughs. Should review of documentation be added to this list of procedures?
 - b. The tests discussed in the standard include inquiries of the client (see paragraph 90). Based on our understanding of the approaches being used by some client firms, some of the inquiry data are being obtained via structured surveys. We believe that the readers of the standard could benefit from some discussion about ensuring the validity of survey data, designing appropriate survey instruments/questions, etc.
 - c. Paragraph 112 – Would it be useful to have some discussion as to the appropriateness of describing an identified exception as an “isolated instance”? We are concerned that some auditors may be too quick to consider an item isolated.
 4. Other minor/editorial comments:
 - a. Paragraph 22, 2nd bullet – We encourage additional explanation of this point. Our concern is that practitioners will not understand what types of qualitative factors to consider.
 - b. Paragraph 24 – This paragraph relates to the control environment. However, one of the bullet points indicates “company’s risk assessment process.” Under COSO, the risk assessment process is not part of the control environment, but is a separate component of internal control. In addition, we wonder whether internal audit activity typically is identified as part of the control environment.
 - c. Paragraph 50, 3rd bullet – It might be useful to elaborate on the last sentence. Could examples be provided?
 - d. Paragraphs 85 and 87 – We encourage more specific guidance on testing design effectiveness. We are concerned that auditors will not have a good basis for performing such tests. Available guidance typically has discussions on assessing design effectiveness and then assessing and testing operational effectiveness. We are not familiar with much guidance on testing design effectiveness.
 - e. Paragraph 126 – This paragraph should specifically refer to paragraph 180. When reading paragraph 126 we had questions about the issues subsequently discussed in paragraph 180.
 - f. Paragraph 140 – We found the last sentence of paragraph 140 to be surprising. Research indicates that analytical procedures can be quite helpful in fraud detection, and SAS No. 99 specifically calls for auditors to perform analytical procedures to assist in fraud detection.
 - g. Paragraph 145 – The first bullet calls for the auditor to document “the evaluation of the design of each of the five components of the company’s internal control over financial reporting.” Does the Board truly intend for the auditor to document separate conclusions about each of the five components, given that only one overall opinion on internal control will be provided?
 - h. Paragraph 191 states that the auditor is not required to perform procedures sufficient to identify all internal control deficiencies. However, is the auditor required to perform procedures necessary to identify all significant deficiencies and/or all material weaknesses? A clarifying comment on this issue would be useful.

We hope that our suggestions are helpful and will assist in finalizing the auditing standard. Please feel free to contact our committee Chair for elaboration on or clarification of any comment.

Respectfully submitted,

Auditing Standards Committee
Auditing Section, American Accounting Association

Committee Members:

Dana R. Hermanson, Kennesaw State University (Chair)
770.423.6077, Dana_Hermanson@coles2.kennesaw.edu
Audrey Gramling, Georgia State University (Vice Chair)
Brian Ballou, University of Illinois (Past Chair)
Karla Johnstone, University of Wisconsin–Madison
Roger Martin, University of Virginia
Stephen Asare, University of Florida
Stuart Turley, University of Manchester

The Auditing Standards Committee wishes to acknowledge the helpful insights of Heather Hermanson, Mark Peecher, and Ira Solomon.

American Accounting Association—Auditing Section *Auditing Standards Committee*

January 6, 2004

Office of the Secretary

Public Company Accounting Oversight Board

1666 K Street, N.W.

Washington, D.C. 20006-2803

RE: Invitation to Comment on PCAOB Rulemaking Docket Matter No. 012

Dear PCAOB:

The Auditing Standards Committee (ASC) of the Auditing Section of the American Accounting Association welcomes the opportunity to comment on *Proposed Auditing Standard on Audit Documentation and Proposed Amendment to Interim Auditing Standards*. We offer the comments below primarily to enhance the clarity of the proposed standard and to address a few more substantive questions. We support the major provisions put forth in the proposed standard.

1. Paragraph 2 – Line 6 provides a list of what audit documentation includes. Should that list also indicate that audit documentation includes records on who performed and reviewed the work and when the performance and review occurred? This point is made more explicit in paragraph 5b, and thus should probably be highlighted in the overview paragraph (i.e., paragraph 2).
2. Paragraph 2 – The last sentence allows audit documentation to be referred to as “work papers or working papers.” Given the movement to electronic formats of audit documentation, we recommend that the standard only utilize the term “audit documentation” to illustrate to professionals that the nature of documenting audits has evolved beyond more traditional forms. Paragraph 4 makes this point, but we recommend more emphasis throughout the document (also see comment #4 below).
3. Paragraph 3a – Although we concur that auditors who are new to an engagement might want to review the prior year’s documentation, we encourage the Board to consider adding language to the standard that encourages auditors new to an engagement to first consider the audit objectives of the current year before using the prior year’s documentation to “aid in planning and performing the current engagement.” We believe that it is important to consider the current audit objectives and business environment before relying on last year’s documentation.
4. Paragraph 5 – The proposed standard notes that audit documentation may be in the form of paper or electronic files. The proposed standard goes on to say (paragraphs 5a and 5b) that the documentation has to be understandable by an experienced auditor having no previous connection with the engagement. We foresee a potential operational difficulty that is not addressed in the standard. Many firms now have firm-specific electronic audit software, with embedded links, electronic signatures, and electronic notations indicating reviewers, review levels, dates of review, etc. We question whether Board staff would be able to do the things in paragraphs 5a and 5b without the assistance of firm personnel guiding them through the software. As a result, we believe that the standard ought to address in what form electronic documentation must ultimately be provided to the Board for review. The standard as currently written addresses only how the firms will store the information internally (i.e., they can store it however they want to), not how they will have to provide the information to a regulatory body or some other audit firm or other interested party.
5. Paragraphs 5 and 11 – The proposed standard suggests that a reviewability standard be achieved (see paragraph 5 indicating that experienced outsiders should be able to review the auditor’s work). We question whether it would be more appropriate to achieve a reperformance standard (i.e., an experienced outsider could theoretically reperform the auditor’s work). Paragraph 11 seems to suggest that reperformance is the desired standard. However, a reperformance standard might suggest the need for additional documentation (e.g., client inquiry procedures should indicate the client personnel involved in the inquiry and the date of such inquiry, observation procedures might include the specifics on who / what was observed and when the observation took place, etc.). We encourage further consideration of reviewability versus reperformance as the appropriate standard. Also, with respect to reviewability in paragraph 5a, in addition to the information specified, the Board might consider whether the documentation should also indicate the objective of the work that was performed.
6. Paragraph 6 – We concur with the Board’s notion of rebuttable presumption and with the contemplation that oral explanation alone would not constitute persuasive other evidence. We believe that some guidance as to what “persuasive other evidence” might include would be helpful in this section. In addition, we recommend that the Board consider more explanation linking the presumption of nonperformance and the ability to rebut with persuasive other evidence. We are concerned that auditors could interpret this paragraph to mean that audit documentation can be willfully omitted from an engagement as long as the auditors retain the necessary evidence to use as rebuttal evidence *if necessary*. We believe that the Board’s intention is that withholding information from audit documentation is a serious problem.
7. Paragraph 9 – In documenting significant findings and issues, should the work papers also detail the client personnel with whom these matters were discussed (e.g., specific management, audit committee members, etc.)?

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8. Paragraph 9b – Should material weaknesses in internal control over financial reporting be explicitly indicated as well (“significant deficiencies and material weaknesses”)?
9. Paragraph 9c – The paragraph starts with the words, “Audit adjustments and the ultimate resolution of these items.” It then goes on to say that an audit adjustment includes “a proposed correction,” implying that auditors need to document proposed adjustments, as well as recorded adjustments. We believe that the standard should be very explicit, noting that auditors are required to document both booked and waived adjustments. To be more explicit, the first sentence could be restated as follows, “Proposed audit adjustments: Documentation required concerning the resolution of these items, including a discussion of the reasons for booked versus waived adjustments.” Also, we wondered about the purpose of defining “audit adjustments” to include those “that should have been proposed based on the known audit evidence.” If an auditor is deficient by not proposing an adjustment that should have been proposed, does this section serve to open the auditor up to an audit documentation violation in addition to the underlying audit quality problem?
10. Paragraph 10 – We believe that the engagement completion memorandum will serve as an effective technique for helping decision makers consider how other people will evaluate their decisions. Should this memorandum also specifically indicate the resolution of all significant findings and issues? This would seem to be suggested in paragraph 9, but it might be helpful to be explicit in paragraph 10.
11. Paragraph 12 – We appreciate the apparent goal of paragraph 12, which would require the auditor to document information that is “inconsistent with or contradicts the auditor’s final conclusions.” However, we wonder about the practicality of this requirement given the reality of auditor litigation. Specifically, would audit firms view this requirement as handing the plaintiffs’ bar ammunition for their lawsuits, such that the documentation is very sketchy and not informative? In addition, we wonder how an audit firm would handle documentation of information that (a) contradicts the auditor’s conclusion, but (b) was refuted or was of very low quality. In cases of refuted or low-quality information, would the auditor be required to document such evidence? Overall, we are concerned about how paragraph 12 will be implemented in practice.
12. Paragraph 14 – The proposed standard would require that the auditor have completed the audit before granting permission to use the auditor’s report. We wonder whether the Board has considered an auditor workload or documentation “hurdle” at the time the auditor approves the client’s release of earnings to the media (which typically occurs long before the financial statements and 10-K are released). Earnings releases provide significant information to investors, and we believe that there may be merit to considering a formal requirement that the auditor have completed and documented the portions of the audit that could reasonably affect the figures in the client’s earnings release before the auditor “signs off” on the release.
13. Paragraph 15 – In addition to the information requirements identified by the Board, we believe that the audit documentation should also indicate any implications on significant audit conclusions of any changes made to the audit documentation.
14. Other Comment - Should there be explicit discussion about what to document when relying on work performed by internal auditors? Or should there just be a reference to SAS No. 65?

We hope that our suggestions are helpful and will assist in finalizing the auditing standard. Please feel free to contact our committee Chair for elaboration on or clarification of any comment.

Respectfully submitted,

Auditing Standards Committee
Auditing Section, American Accounting Association

Committee Members:

Dana R. Hermanson, Kennesaw State University (Chair)
770.423.6077, Dana_Hermanson@coles2.kennesaw.edu
Audrey Gramling, Georgia State University (Vice Chair)
Brian Ballou, University of Illinois (Past Chair)
Karla Johnstone, University of Wisconsin–Madison
Roger Martin, University of Virginia
Stephen Asare, University of Florida
Stuart Turley, University of Manchester

CALL FOR NOMINATIONS

Notable Contribution to the Auditing Literature Award

The Auditing Section seeks submissions for the Notable Contribution to the Auditing Literature Award. The award will recognize a published work of exceptional merit that has made, or has the potential to make, a direct contribution to auditing or assurance research, education, and practice. To be eligible for submission, a work must have been published during the ten-year period ended December 31, 2003, and at least one of the authors of the published article, chapter, book, or monograph must be a current member of the Auditing Section. Selection of the award winner will be made by the Auditing Section's Notable Contribution to the Auditing Literature Award Committee. The award will be presented at the 2005 Midyear Conference of the Auditing Section.

A work may be submitted either by the author or another individual with an interest in auditing research, education, or practice. Submissions must include five copies of: (1) a nomination letter stating why the work is deserving of special recognition, and (2) the submitted work. Submissions should be sent by July 1, 2004 to:

Professor Linda McDaniel
Von Allmen School of Accountancy
Gatton College of Business and Economics
University of Kentucky
Lexington, KY 40506-0034
Phone: (859) 257-2018
Fax: (859) 257-3654
Email: tarcat@uky.edu

Outstanding Auditing Dissertation Award

The Auditing Section seeks nominations for its annual Outstanding Auditing Dissertation Award. The author of the dissertation judged to make the most outstanding contribution to auditing knowledge among those dissertations nominated for consideration, in addition to the recipient's dissertation chair, will receive the award. The assessment of what constitutes an outstanding contribution will be based upon, but not limited to, the following criteria:

- The timeliness and importance of the problem(s) addressed.
- The creativity of the research.
- The development of an appropriate theoretical framework.
- The appropriateness of the research method and analysis.
- The potential for publication in a scholarly journal.
- The potential for the results to have an impact on the practice of auditing.

Selection of the award winner will be made by the Section's Outstanding Dissertation in Auditing Committee. A dissertation can be nominated either by the author or one or more members of the dissertation committee. Nominations will be considered complete when the following materials have been submitted:

- A letter from the dissertation chairperson stating that the dissertation has been completed and accepted by the degree-granting institution between January 1, 2002 and December 31, 2003 (dissertations can be nominated more than once).
- Five copies of a nomination letter stating why the dissertation is deserving of special recognition.
- An electronic copy of a paper from the dissertation that meets the criteria for papers submitted to *Auditing: A Journal of Practice & Theory* (refer to the latest issue for requirements related to length and other matters, e.g., submission of experimental instruments).
- An electronic copy of the entire dissertation.

Please submit all materials by July 1, 2004 to:

Professor Linda McDaniel
Von Allmen School of Accountancy
Gatton College of Business and Economics
University of Kentucky
Lexington, KY 40506-0034
Phone: (859) 257-2018
Fax: (859) 257-3654
Email: tarcat@uky.edu

CALL FOR NOMINATIONS

Innovation in Auditing and Assurance Education Award

The Innovation in Auditing and Assurance Education Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2005. The purpose of this award is to encourage innovation and improvement in auditing and assurance education. The award will recognize a significant activity, concept, or materials. The criteria used to judge the submissions include, but are not necessarily limited to: (1) innovation, (2) educational benefits, and (3) adaptability by other educational institutions or to other situations.

Nominations may include, for instance, a set of teaching materials, a creative instructional strategy, or an insightful teaching approach. The innovation should have been implemented so that evidence of its success can be evaluated. Award winners must be willing to share instructional materials with other members of the Section. Individual faculty members or groups of faculty teaching or preparing materials to be used for auditing and/or assurance education are eligible to apply. Persons may also nominate another faculty member or group of faculty. At least one nominee must be a member of the Auditing Section. Nominations should be sent by July 1, 2004 to:

Professor Jean C. Bedard
Northeastern University
404 Hayden Hall
Boston, MA 02115
Phone: (617) 373-8368
Fax: (617) 373-8814
Email: j.bedard@neu.edu

Distinguished Service Award in Auditing

The Distinguished Service in Auditing Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2005. This award recognizes outstanding and sustained service to the profession or the Auditing Section. The distinguished careers of past recipients of the award (e.g., Andy Bailey, Zoe-Vonna Palmrose, Lyn Graham, Robert Mautz, Robert Elliott, William Kinney, Dave Landsittel, and Dan Guy) represent the type of contribution to the profession that exemplifies this recognition. Nominations should be sent by July 1, 2004 to:

Scott Showalter
KPMG LLP
3 Chestnut Ridge Road
Montvale, NJ 07645
Phone: (201) 505-5500
Fax: (201) 505-6302
Email: dsshowalter@kpmg.com

Outstanding Auditing Educator Award

The Outstanding Auditing Educator Award Selection Committee is seeking nominations from the Section's membership for the award to be given at the Auditing Section Midyear Conference in January 2005. This award is given annually and recognizes outstanding contributions to the field of auditing education. Prior recipients of this award include Dan Simunic, Ted Mock, Andy Bailey, Ira Solomon, William Kinney, William Felix, Nick Dopuch, and Barry Cushing. Nominations should be sent by July 1, 2004 to:

Professor Jean C. Bedard
Northeastern University
404 Hayden Hall
Boston, MA 02115
Phone: (617) 373-8368
Fax: (617) 373-8814
Email: j.bedard@neu.edu

CALL FOR NOMINATIONS

Nominees for Election as Section Officers

The members of the Auditing Section will elect two officers in Fall 2004, the **Vice President–Academic (President-Elect)** and **Treasurer**. Those elected will begin serving their terms in August 2005. Please submit names of individuals you would like to nominate for these positions no later than **July 1, 2004**. The Nominations Committee will then select the slate for election from these nominations. In addition, the Bylaws require the Nominations Committee to automatically place on the ballot any person whose nomination is accompanied by a signed petition of no fewer than one hundred (100) members in good standing of the Section and a signed statement by the nominee of willingness to serve if elected. This petition should also be received by July 1, 2004. Please submit nominations and/or petitions to Jean C. Bedard, Chairperson, Nominations Committee, by mail, fax, or email:

Professor Jean C. Bedard
Northeastern University
404 Hayden Hall
Boston, MA 02115
Phone: (617) 373-8368
Fax: (617) 373-8814
Email: j.bedard@neu.edu

CALL FOR PAPERS

International Symposium on Audit Research

July 2 and 3, 2004

Maastricht, The Netherlands

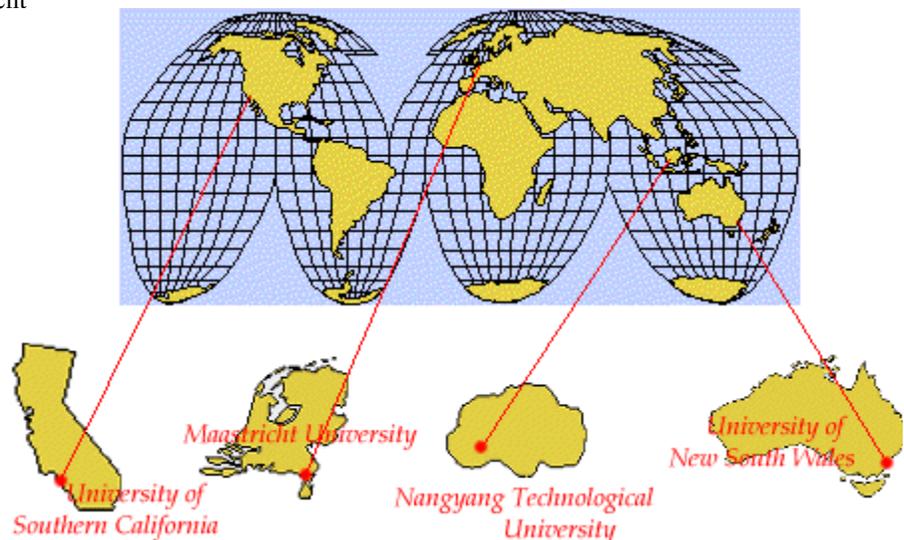
About the Symposium:

The tenth annual International Symposium on Audit Research (ISAR) will be hosted by Universiteit Maastricht and will be held on July 2 and 3, 2004 in Maastricht, The Netherlands. ISAR has been formed from a merger of two previous audit research symposia: the University of Southern California (USC) Audit Judgment Symposium and the Maastricht Audit Research Symposium. Starting in 1997, an international consortium of universities began taking turns co-hosting ISAR. These universities are the University of Southern California, Universiteit Maastricht, Nanyang Technological University, and The University of New South Wales.

Registration Information

If you would like details on early registration for the Symposium, please write or email:

Miriam Scheepers
MARC Universiteit Maastricht
PO Box 616 6200 MD, Maastricht
The Netherlands
Email: admin@isarhq.org



MEETING ANNOUNCEMENT AND CALL FOR PAPERS

11th Annual Midyear Auditing Section Conference and 25th Anniversary Conference for *Auditing: A Journal of Practice & Theory*

The 11th Annual Midyear Auditing Section Conference and 25th Anniversary Conference for *Auditing: A Journal of Practice & Theory* will be held in **New Orleans, LA on January 13–15, 2005**. The Annual Midyear Conference will consist of keynote, plenary, and concurrent sessions dealing with a wide variety of contemporary topics related to audit, attestation and assurance practices, education, and research. You are encouraged to contribute to the program through submissions of auditing/attestation/ assurance research and education papers, teaching cases, and special session proposals.

The midyear meeting will be preceded by a one-day conference celebrating the 25th anniversary of *Auditing: A Journal of Practice & Theory* on January 13, 2005. The anniversary conference will include sessions that examine past auditing research and will include research papers on current audit topics. There will be a celebratory dinner the evening of the conference.

The conferences will be held at the **Astor Crowne Plaza (<http://www.astorcrowneplaza.com>)**. Located at the gateway to the French Quarter where Bourbon Street meets Canal Street, **The Astor Crowne Plaza** allows for quick access to both the excitement of Bourbon Street and nearby downtown attractions of Harrah's Casino, Aquarium of The Americas, Riverwalk Shopping Center, Morial Convention Center, N.O. Sports Arena, and the Superdome.

SUBMISSION GUIDELINES and DEADLINES

25th Anniversary Conference

Email submissions of papers for the conference should be sent to Professor Bill Messier (bmessier@gsu.edu) as Word attachments. Research papers should follow the style guidelines of *Auditing: A Journal of Practice & Theory*. To preserve anonymity, email the cover page and the remainder of the manuscript as separate files. For field surveys or experiments, also email the research instrument, removing the identities of the authors. The submission fee is \$75.00, and it can be paid through the AAA website.

Submissions must be received by **June 30, 2004** to be considered for the program. Early submission is highly encouraged. Papers accepted for the conference will be published in a special supplement of the journal, provided that it meets the requirements of the normal editorial process. Papers not accepted for the 25th anniversary conference will be submitted automatically to the Midyear Conference unless the author requests otherwise.

Midyear Conference

Email submissions (auditing research and education papers, teaching cases, and special session proposals) to either Professor Billy Soo at billy.soo@bc.edu or Professor Mark Peecher at peecher@uiuc.edu as Word attachments. Research papers should follow the style guidelines of *Auditing: A Journal of Practice & Theory*. To preserve anonymity, email the cover page and the remainder of the manuscript as separate files. For field surveys or experiments, also email the research instrument, removing the identities of the authors.

Submissions must be received by **September 1, 2004** to be considered for the program. Submissions are not eligible for consideration if they will have been: (1) published or accepted for publication by September 1, 2004, (2) presented at the 2004 AAA Annual Meeting, or (3) presented at more than one AAA regional meeting. Papers presented at the Research Forum of the AAA Annual Meeting are eligible for consideration. Papers accepted for presentation at the 2005 Midyear Auditing Section Conference also may be submitted for presentation at the 2005 AAA Annual Meeting.

Early submission is highly encouraged. There is no fee for submissions to the midyear meeting only. Any questions should be addressed to the meeting co-chairs, Billy Soo and Mark Peecher, at the email addresses listed above.

11th Annual Midyear Auditing Section Conference
January 13–15, 2005 — New Orleans, Louisiana

Your help in planning and conducting the Section's 2005 Midyear Conference is needed. If you would like to volunteer your assistance in one or more of the following areas, please complete this form and hand it to a Steering Committee member or mail/fax it to the addresses below.

Name _____
Address _____
City _____ State _____ Zip _____
Phone _____ Fax _____ Email _____

Reviewer: If you are willing to assist by reviewing one to three manuscripts, please indicate your areas of competence/interest.

Research Areas _____
Research Methods _____

Session Chair or Discussant: Please indicate if you are willing to assist in either of these capacities.

Session Chair _____ Discussant _____

Special Sessions: Please provide ideas that you have for special CPE topics, panels, workshops, etc. If you know particular individual(s) who may be interested in the areas you recommend, please list their names. Use the back of this page for additional comments.

The Steering Committee deeply appreciates your input. Mail, fax, or email this form to either co-chair below:

Billy S. Soo
Associate Professor
Department of Accounting
Carroll School of Management
Boston College
Chestnut Hill, MA 0246
Email: billy.soo@bc.edu
Fax: (617) 552-6345

Mark E. Peecher
Associate Professor
College of Business
University of Illinois at Urbana-Champaign
1206 South Sixth Street
Champaign, IL 61820
Email: peecher@uiuc.edu
Fax: (217) 244-0902

CALL FOR PAPERS

2004 ABO Research Conference

The 2004 ABO conference will be held in October 2004 (exact dates and site to be determined). Papers should be submitted by Friday, **July 2, 2004**. Selection of conference papers will be announced by Friday, August 20, 2004. Submitted papers should not have been accepted for publication at the time of the submission.

Authors may simultaneously submit their paper for consideration for publication in *Behavioral Research in Accounting* (with no additional *BRIA* submission fee), if desired. Please include a note to indicate whether the paper should be simultaneously submitted to *BRIA* for publication consideration. The paper will NOT be simultaneously submitted to *BRIA* unless the author specifically requests such a submission.

BRIA decision making and conference decision making, however, are independent processes. No separate conference issue of *BRIA* will be published.

Email submissions of papers for the conference should be sent to Professor Rich Houston (rhouston@cba.ua.edu) as Word attachments. Research papers should follow the style guidelines of *Behavioral Research in Accounting*. To preserve anonymity, email the cover page and the remainder of the manuscript as separate files. For field surveys or experiments, also email the research instrument, removing the identities of the authors.

Early submission is highly encouraged. The submission fee will be \$75.00—details on payment will be forthcoming with the formal conference announcement.*

Please direct questions to:

Professor Rich Houston
Box 870220 / 310 Alston
Culverhouse School of Accountancy
The University of Alabama
Tuscaloosa, AL, 35487-0220
Email: rhouston@cba.ua.edu

* When registering for the conference, submitters can deduct \$50 from the normal registration fee (limited to one deduction per paper and one deduction per person).

Watch the AAA website for further details on the conference.

CALL FOR PAPERS

16th Symposium on Auditing Research Office of Accounting Research University of Illinois at Urbana–Champaign October 7–9, 2004

The 16th University of Illinois Symposium on Auditing Research will be held on the Urbana–Champaign campus on October 7–9, 2004. 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
Sixteenth Symposium on Auditing Research
Department of Accountancy
University of Illinois at Urbana–Champaign
1206 S. Sixth Street
Champaign, IL 61820

Submission deadline: June 15, 2004

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.

Ninth Symposium on Ethics in Accounting

August 2004 • Orlando, Florida

Beyond Sarbanes-Oxley: Can the Accounting Profession Meet Its Ethical Mandate?

CALL FOR PAPERS: Tuesday, April 1, 2004

The AAA's Professionalism and Ethics Committee invites papers for the Ninth Symposium on Ethics in Accounting, to be held immediately preceding the 2004 AAA Annual Meeting in Orlando.

Scope and Aims of Symposium

The Sarbanes-Oxley Act will be fully implemented before the meeting, providing an opportunity to reflect on its implications and to evaluate its initial effects. Rules have changed, but is there evidence that the accounting profession has a strategy for assuming the ethical mandate assigned by society? The current environment provides a unique opportunity to make a difference in the ethical climate of business. Is the accounting profession up to the challenge?

The conference will be open to *any papers related to ethics in accounting*. We especially encourage authors to develop and communicate a theoretical understanding of *why* the accounting profession continues to struggle through a series of ethical failures. *Positive, empirical explanations of "what is" are encouraged as well*. But perhaps it is time to also think theoretically of why things are the way they are, and to provide a road map based on theory that gives direction for change.

Based on submissions received, we expect to have *three tracks* at the conference: *a theory track*, an *empirical/experimental track*, and an *ethics education/case track*. This should lead to a lively interchange of ideas, potentially including time for informal "discussion sessions" with authors to aid them in fleshing out ways to apply ethics theory to the problems confronting the profession. The goal of this conference is to stimulate creativity in the accounting ethics community and to allow networking opportunities. We encourage collaboration with members of the profession outside academe. We welcome your suggestions (Email: mshaub@stmarytx.edu) on how to make this the most interesting accounting ethics conference you have ever attended. We want all members of the accounting ethics community to be included in this event.

A prize will be awarded for best overall paper and a separate award will be presented for the best paper authored by a Ph.D. student. Both presentation and forum sessions will be included in the program. All faculty and doctoral students are invited to attend; enrollment fee waivers are available for doctoral students, with registration covered by the Professionalism and Ethics Committee.

Location and Dates

The symposium will be held in Orlando as a CPE session, immediately prior to the 2004 AAA Annual Meeting. The meetings will be held in the main convention hotel or within a convenient walking distance from the hotel.

Details for Paper Submission

One (1) copy of the completed manuscript should be transmitted as an attached Word file to the conference coordinator, Mike Shaub (Email: mshaub@stmarytx.edu) on or before **Tuesday, April 1, 2004**. To preserve the anonymity of the review process, please remove any references to authors on the cover page and in the body of the paper. Author names and affiliations should appear in the submission letter (i.e., cover email). Please indicate with the submission: (1) the names of any co-authors that are doctoral students; and (2) if you would like the paper to be considered as well for publication in *Research on Professional Responsibility and Ethics in Accounting* OR *Accounting and the Public Interest*. The editors of both journals have graciously agreed to waive the initial journal submission fee. A nonrefundable conference paper submission fee of U.S.\$20 (made payable to the American Accounting Association) should be submitted concurrently to:

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10TH WORLD CONGRESS OF ACCOUNTING HISTORIANS

ST. LOUIS/OXFORD, AUGUST 1–5, 2004

CALL FOR PAPERS

ONE — TWO — THREE

ONE CONFERENCE—TWO LOCATIONS—THREE THEMES



The 10th World Congress of Accounting Historians will meet in the U.S. with a dual venue of St. Louis, Missouri, and Oxford, Mississippi, from August 1–5, 2004. The Congress will commence in St. Louis on August 1 to celebrate the centenary of the first International Congress of Accountants that was held in St. Louis in 1904 as a part of the World's Fair commemorating the Louisiana Purchase and Lewis & Clark Expedition. Sessions will be held at the St. Louis Mercantile Library, which was founded in 1846. The headquarters hotel will be the Renaissance Airport Hotel. The Congress will then move by air-conditioned motor coaches to Oxford, Mississippi, on August 3 to give delegates an opportunity to visit the National Library of the Accounting Profession at the University of Mississippi. The Ole Miss Library is the largest accountancy library in the world. The Alumni House Hotel will be the Congress headquarters. There will be activities during the motor coach trip devoted to accounting history topics, such as featured speakers and videotapes. After the Congress, delegates may proceed to Orlando, Florida, for the American Accounting Association Annual Meeting. It may be most convenient to continue your post-Congress air travel from nearby Memphis International Airport.

Papers are invited on **any** accounting history topic. Papers that address any of the three Congress themes are particularly desired. The three Congress themes are:

1. International Congresses of Accountants
2. Accounting for Transportation and Financial Industries
3. Archival-Based Accounting Research

INTERNATIONAL CONGRESSES OF ACCOUNTANTS

Since 2004 marks the centenary of the first International Congress of Accountants in St. Louis, a major theme of the 10th World Congress of Accounting Historians is scholarship on the sixteen International Congresses of Accountants, the nine International Congresses of Accounting Educators, and the nine preceding World Congresses of Accounting Historians. There is a need to increase the relatively limited scholarship about each of these congresses. The dates and sites of these previous congresses are:

International Congresses of Accountants

1904	St. Louis	1957	Amsterdam	1987	Tokyo
1926	Amsterdam	1962	New York	1992	Washington
1929	New York	1967	Paris	1997	Paris
1933	London	1972	Sydney	2002	Hong Kong
1938	Berlin	1977	Munich		
1952	London	1982	Mexico City		

World Congresses of Accounting Historians

1970	Brussels	1992	Kyoto
1976	Atlanta	1996	Kingston
1980	London	2000	Madrid
1984	Pisa	2002	Melbourne
1988	Sydney		

The International Congresses of Accounting Educators started in 1962 and were conducted just before or after the International Congresses of Accountants, either in the same city or nearby. Leadership of the **IAAER** (International Association for Accounting Education and Research) will assist in reviewing papers for this theme. Some examples of possible paper topics include: (1) Examination of a Specific Congress; (2) Continuity and Discontinuity of the Congresses; (3) Concept of International Congresses; (4) Key Players at Each Congress (Biographies); (5) Seminal Papers; (6) Splitting the Congresses in 1962; (7) Continuing Themes and Topics across the Years; and (8) International Accounting Standards Movement.

ACCOUNTING FOR TRANSPORTATION AND FINANCIAL INDUSTRIES

As the Gateway to the West, St. Louis is an appropriate venue for research on accounting for railroads, canals, riverboats, stagecoaches, airlines, and automobiles. The Mercantile Library is also a repository of several transportation collections. Thus, the Congress will highlight papers dealing with transportation-related industries throughout the world. Papers can include analyses of financial statements, accounting innovations, and the people who played a role in the development of transportation accounting. Similarly, St. Louis has historically been a financial center for Western development, so histories related to accounting for all types of financial institutions will be a focus of the Congress.

ARCHIVAL-BASED ACCOUNTING RESEARCH

Because the library at the University of Mississippi is a treasure trove of accounting archival records, one of the Congress themes will be to emphasize archival-based research. Such research can be based on any type of organization. Examples include analyses of accounting innovations, diffusion of accounting innovations, impact of the environment (such as war, depression, or competition) on accounting, impact of accounting on the environment, and examples of company histories based on accounting records.

In addition to papers on the three Congress themes, papers on other topics of accounting history are also welcome.

The 10th World Congress is sponsored by the **Academy of Accounting Historians**. The co-conveners of the Congress are Richard Vangermeersch of the University of Rhode Island, and Dale L. Flesher of the University of Mississippi. Manuscripts for review should be sent to the following address:

Dr. Dale L. Flesher
Patterson School of Accountancy
University of Mississippi
University, MS 38677
Email: acdflf@olemiss.edu

Papers may be submitted in either hard copy or electronic format (electronic submissions should be in either Microsoft Word® or WordPerfect® format). All papers should be submitted in English. Special consideration will be accorded those papers prepared by scholars who use English as a second language so as to facilitate the broadest acceptance and presentation of materials. The Congress program will focus around the best papers received. All papers will be double-blind refereed and, subject to consent, the accepted papers will be published as refereed Congress Proceedings on the Congress website. A hard-copy volume of abstracts will also be distributed. The deadline for submissions is **February 28, 2004**. Earlier submissions are encouraged.

Research on a Road Less Traveled: Field Research in Auditing and Corporate Governance

Kevan Jensen and Steve Salterio, on behalf of the Research Committee

Field research in auditing and corporate governance is relatively rare in accounting. However, well-done field research is highly valued, as exhibited by the awarding of two Notable Contribution to Auditing Literature Awards to field research in the first four years of the award's existence. Good field research requires skills in obtaining access to research sites, mailing lists, interviewing, administering surveys, and possessing other skills that are not normally the focus of a standard North American Ph.D. program. Consequently, the Research Committee gathered a panel of leading North American audit field researchers to discuss the pros and cons of carrying out such research, and how to acquire the requisite skills. The Panel was composed of Steve Salterio (Queen's University, Chair and case studies); Mike Gibbins (University of Alberta, theory building and survey methods and this year's recipient of the Notable Contribution to Auditing Literature Award for his field research); Vaughan Radcliffe (University of Western Ontario, field research via observation); and Arnie Wright and Jeff Cohen (Boston College, interview methods, challenges of carrying out field research in the U.S.).

The panel members each provided either a one-page summary of their remarks or a PowerPoint® presentation summarizing their thoughts. Furthermore, the session chair had prepared a somewhat annotated bibliography of field research in auditing that had been published in the last 25 years. These presentations and the annotated bibliography will be posted to the Research page in the Audit Section's website in the near future.

Below are our top-ten lessons to learn from the very thoughtful presentations. The presenters bear no responsibility for these choices and indeed may well disagree with one or more of them.

1. Field-based research is a well-recognized research method in the social sciences—the earliest audit pieces were published in *The Accounting Review* in 1980. It was noted, however, that field-based auditing research is more commonly published outside of the U.S., in venues like *Contemporary Accounting Research* and *Accounting, Organizations and Society*. One panelist noted that, while it took a lot of work, our current section journal editor had finally accepted a field study for *Auditing: A Journal of Practice & Theory*!
2. Field-based audit research allows the researcher to look into the “black box” of auditor/corporate governance participant behavior and to develop context-based theory that combines a deep understanding of the accounting context with economic, psychology and/or sociology theory(s).
3. One of the primary challenges of field research in auditing is gaining access to appropriate participants or “field sites.” Appropriate participants and field sites should be chosen based on the research question being studied and the theoretical perspective being brought to bear by the researchers and should not be chosen based on the convenience of the researcher.
4. Once appropriate participants and sites are identified, the researcher needs to find ways to obtain access to these people. Researchers need to think creatively about contacts that they may know who do the task being studied or who may be able to “open the door” to gain access to those people. Some ways to obtain access to these highly sought-after participants include:
 - Working with senior practitioner-oriented co-author(s) who have credibility with and the trust of the sought-after participants.
 - Contacting members of University/Business School/Department advisory boards who may be able to facilitate access.
 - Interacting with prominent School alumni who may be able to facilitate access.
 - Discussing access with key-firm contacts that fund named fellowships, professorships, or chairs.
 - Seizing opportunities to gain access when they arise, such as interacting with other areas of the School or University, or by inviting a targeted participant to campus.
5. Major methods used in field research include theoretical-based questionnaires, interviews, and observation of identified participants carrying out their tasks of interest.
6. Panelists noted that theory-based questionnaires are not surveys about “life as an ‘X’ in general,” but inquiries of appropriate participants asking them to recall specific types of incidents they have encountered. The development of such a questionnaire should not be taken lightly. The time and effort put into developing and pretesting the questionnaire prior to distributing it is at least as extensive as preparing a well-tested experimental research instrument.
7. Interviews are an important part of the development process for theory-based questionnaires as well as a research

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Research on a Road Less Traveled: Field Research in Auditing and Corporate Governance

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method. Panelists noted that the degree of interview structure (e.g., at one extreme a handful of open-ended questions, while at the other extreme using the same questions in the same order, and never deviating from the preplanned script) depended on how much is known about the context before the interviews commence. Panelists argued that, at most, interviews be semistructured where the interviewer has a list of questions to cover, but is free to probe deeper and reorder the questions based on how the interview progresses.

8. Observation of targeted participants carrying out their tasks can provide rich and ecologically valid data once the participant grows used to having the researcher around. Panelists noted that this is very time-intensive research that can take months to complete and often requires the researcher to work the same hours as the participant so as not to miss key meetings or events. Furthermore, it was noted that often such observation was preceded and followed by interviews so that the researcher gained more insights into what the researcher was observing.
9. Panelists made it clear that field researchers should carefully consider the issue of “triangulation,” which loosely translated into auditing language means “corroboration.” Combinations of interviews, archival data, questionnaires, and active or passive observation all provide possibilities for gaining corroborating evidence. Another approach is interviews with multiple informants, such as peers, subordinates, and superiors of the original targeted participant. All of these approaches provide assurance of good understanding not only to the researcher, but also to the reader of the research.

10. Writing publishable papers from field-based research often requires more thought about presentation of the rich data set than is required for experimental or archival research. There tends to be less of a “cookie cutter” approach to writing field research. The Panelists noted that lack of such a “formula” does not mean that the methods employed to analyze the data are any less rigorous and encouraged field researchers to be more explicit about their analysis methods.

In the question-and-answer session that followed the formal presentations, the panel was split on the question of whether field-based research should be carried out as part of dissertation research. The two U.S.-based panelists cautioned strongly against doing so because of its lack of current acceptance as being rigorous research in some parts of the accounting academy and because of the time intensity of the research. The three Canadian-based panelists saw no problem with doing field research as part or all of a dissertation, citing the advantages of being able to study field research methodology via classes offered in sociology and/or anthropology departments and/or survey research centers while or before carrying out such research.

Finally, as noted previously, field research is a relatively more time-intensive method for gathering data. Hence, panelists were unanimous in their belief that wise users of this methodology do not carry out “one of” studies but view the field-based research as part of a series of studies that can include experiments and/or archival studies as well as using the rich set of field data to motivate more than a single paper.