



# THE AUDITOR'S REPORT

Volume 29, No. 2  
Spring 2006

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Report of the President

### Mark Beasley



I continue to enjoy the privilege of serving as the Auditing Section's President for 2005-2006. What a pleasure it is for me to work with so many of the members of our Section and the broader accounting profession community. Thank you for the wonderful opportunity to serve in this capacity. The Auditing Section has much to be proud of and it is important for all of you to be aware of what our Section is doing. Let me provide you a brief overview of some of our recent activities.

### 2006 Mid-Year Conference

We could not have had a more exciting 2006 Auditing Section Mid-Year Conference, which was held January 13-14, 2006 at the Hilton-Universal Studios in Los Angeles, California. Our format was a bit different this year as we experimented with hosting our meeting jointly with the AAA International Section. From all accounts from the over 370 attendees, it was a huge success! While we combined our plenary sessions, the joint meeting allowed us to provide additional concurrent sessions whereby Auditing Section and International Section members could attend any concurrent session of their choice. This event provided an excellent opportunity for members of both sections to interact and dialogue about important issues related to the global audit profession.

The timing for a joint meeting with the International Section could not have been better. Given the rapid pace of standards setting, particularly at the international level, we are seeing first-hand the rapid "globalization" of issues affecting the accounting profession. Thus, our focus on international developments in auditing was extremely relevant. We were fortunate to open our meeting with

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three plenary speakers who are heavily involved in standards-setting at the international level. Jim Sylph, who serves as Technical Director of the International Federation of Accountants (IFAC), served as moderator. Jim provided insights about changes happening internationally based on his work with IFAC, in addition to his instrumental work in securing our two other speakers. David Brown, former chair of the Ontario Securities Commission and current member of the International Public Interest Oversight Board (IPIOB), provided an excellent overview of the mission and initial activities of this newly formed public interest oversight group. John Kellas, Chairman of the International Auditing and Assurance Standards Board (IAASB), followed David with an overview of current standards-setting initiatives at the IAASB level, including recent developments resulting from the European Commission's 8<sup>th</sup> Directive that further embraces IAASB standards. All three speakers were excellent — what a great kickoff they provided for our joint conference.

After literally "walking the red carpet" inside Universal Studios to enjoy our movie-themed reception Friday night, we began our Saturday activities with a plenary session featuring Brad Oltmanns, who serves as partner on PricewaterhouseCoopers, LLP's Academy Awards Balloting engagement. Brad's overview of the incredibly secretive process of counting the ballots of nominees for Academy Awards that occurs in January and the firm's subsequent count of ballots for the award winners who are announced in March was quite exciting. We all quickly got the sense that, while it would be quite fun to be part of this engagement team, the pressure associated with the need for accuracy and secrecy is intense as they work towards the live telecast of the Academy Awards Ceremony - the second most watched television show behind the NFL Super Bowl. As the Academy Award nominees for 2006 were revealed January 31, 2006, it was fun to know a lot about the process that Brad and his engagement team had just completed. I look forward to watching the Academy Awards show in March, knowing that Brad and one of his partners will be back stage with the winning envelopes in hand!

We all owe a huge debt of gratitude to our 2006 Mid-Year Conference Planning Co-Coordinator — Mark DeFond and Todd DeZoort. They went well beyond the call of duty as they coordinated the packed conference agenda that featured 16 concurrent sessions, four invited panel sessions, and our research roundtable forum papers. Todd and Mark were assisted by Karla Johnstone and Terry Neal, who will serve as our 2007 Mid-Year Conference Co-Coordinator. Thanks to many of you who served as moderator, discussant, or reviewer. And, we are indebted to the great AAA staff, including Dee Strahan and her on-site team, for their incredible assistance. It really takes a team effort to pull this conference off — well done!

[ASB Update  
as of 4 January 31, 2006](#)

[PCAOB Standards-Setting  
Update](#)

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

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

## **Calls**

[2006 ISAR Conference](#)

[13th Annual Midyear  
Auditing Section  
Conference](#)

[2006 ABO  
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Nominees for Offices](#)

[Auditing Section Awards](#)

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[Volunteers Needed  
2007 Auditing Section  
Midyear Conference](#)

## **Announcements**

The Auditing Section is especially grateful to the KPMG Foundation for their continued generous support of our Mid-Year Conference. Thankfully, we were able to publicly express our appreciation to Bernie Milano and Eddie Munson, who were among the KPMG representatives at the conference. Please be sure to thank others with the firm for the support the KPMG Foundation provides.

### **Auditing Section Doctoral Consortium**

Fifty current PhD students from programs around the globe were treated with an awesome Auditing Doctoral Consortium that was held on Thursday, January 12, 2006. Karl Hackenbrack served as the program coordinator for our 7<sup>th</sup> Annual Auditing Doctoral Consortium. He assembled an impressive line-up of speakers and panelists for this all-day event for current doctoral students.

The purpose of the Consortium is to stimulate students' research by exposing them to the latest ideas and thoughts from leading researchers in auditing, and by providing opportunities for networking with other Ph.D. students interested in auditing, established auditing researchers, and journal editors. Karl far exceeded our expectations for this event and more than achieved our desired goals for this event. Jane Kennedy, who will coordinate the 2007 Auditing Doctoral Consortium, assisted Karl by coordinating an exciting Editor's panel that provided the ending capstone to the day. Again, we are grateful for the generous support from the KPMG Foundation, which also supports our Consortium.

### **Section Awards Announced**

One of the exciting activities of our Section is the award recognition for the tremendous accomplishments and dedicated service of many of our Section members. We are fortunate to have so many outstanding individuals who participate in numerous activities of our Section whether through research, education, or service. Thankfully, we take the time annually to recognize some of you.

During our two luncheons at the Mid-Year Conference, we highlighted our award winners for their work. At Friday's luncheon, we recognized two outstanding individuals for their service. Bill Felix was awarded the 2006 Distinguished Service Award and Jane Mutchler was awarded the 2006 Outstanding Auditing Educator Award. As we all know, these two individuals have served in numerous capacities not only for our Section, but also at the AAA level and beyond. They provide two excellent role models for all of us to follow and we are proud to be able to recognize them with these awards.

[2006 Distinguished Service  
in Auditing Award](#)

[2006 Auditing Section  
Outstanding Educator  
Award](#)

[2006 Innovation in Auditing  
and Assurance Education  
Award](#)

[2006 Outstanding Auditing  
Dissertation Award](#)

[2006 Notable Contributions  
to the Auditing Literature  
Award](#)

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

[Auditing Home Page](#)

### **Summer 2006 Issue Deadline**

The deadline for material to be included in the Summer 2006 issue of *The Auditor's Report* is April 30, 2006. The preferred format is a Word file attached to an e-mail message. We also are open to any proposals for materials that anyone would like to submit. Please send all material and proposals to the Editor at the address below by April 30, 2006 to ensure timely publication of the issue:

James L. Bierstaker, Editor  
Department of Accountancy  
College of Commerce & Finance  
Villanova University  
Villanova, PA 19085-1678  
Phone: (610) 519-4340  
Fax: (610) 519-5204

Email:

On Saturday, we announced three additional award winners. Mark DeFond and K.R. Subramanyam were on hand to receive the 2006 Notable Contributions to the Auditing Literature Award for their paper also co-authored with Jim Jiambalvo and Connie Becker titled, "The Effects of Audit Quality on Earnings Management," which appeared in *Contemporary Accounting Research* in 1998. Tina Carpenter received the 2006 Auditing Section Outstanding Dissertation Award for her dissertation titled, "Partner Influence, Team Brainstorming, and Fraud Risk Assessment: Some Implications of SAS No. 99." Jane Reimers was also recognized for her service as Tina's dissertation chair. Finally, Cindy Durtschi was awarded the Innovation in Auditing Education Award for her case titled, "The Tallahassee BeanCounters: A Problem-Based Learning Case in Forensic Accounting," that appeared in *Issues in Accounting Education* in 2003.

What a privilege to recognize these individuals for their outstanding accomplishments. I am also grateful to the award selection committees who worked hard in making these selections.

Please see the Call for Award Nominations that appears later in this issue. Nominations for each award are due July 1, 2006. Be sure to nominate individuals for these important awards.

### PCAOB Research Syntheses Teams Announced

The Auditing Section Executive Committee recently announced the selection of seven research teams that will be responsible for preparing academic research syntheses for the Public Company Accounting Oversight Board (PCAOB) related to these PCAOB standards-setting topics:

PCAOB Topic	Team Leader/Email Contact
1. Audit Confirmations	Randy Elder <a href="mailto:rjelder@syr.edu">rjelder@syr.edu</a>
2. Audit Firm Quality Control	Jean Bedard <a href="mailto:jbedard@bentley.edu">jbedard@bentley.edu</a>
3. Audit Reporting Model	Bryan Church <a href="mailto:bryan.church@mgt.gatech.edu">bryan.church@mgt.gatech.edu</a>
4. Auditing Related Party Transactions	Elaine Henry <a href="mailto:ehenry@exchange.sba.miami.edu">ehenry@exchange.sba.miami.edu</a>
5. Communications with Audit Committees	Arnie Wright <a href="mailto:Wrightar@bc.edu">Wrightar@bc.edu</a>
6. Engagement Quality Review	Arnie Schneider <a href="mailto:arnold.schneider@mgt.gatech.edu">arnold.schneider@mgt.gatech.edu</a>

[james.bierstaker@villanova.edu](mailto:james.bierstaker@villanova.edu)

The address of the Auditing Section's Home Page on the World Wide Web is:

<http://aaahq.org/audit/index.htm>



## 7. Financial Fraud

Chris Hogan [chogan@mail.cox.smu.edu](mailto:chogan@mail.cox.smu.edu)

Teams were selected by the Executive Committee based on nomination recommendations received from the Section's Research and Auditing Standards Committees. Individuals recommended by the Research and Standards Committee were identified from the pool of nomination packages submitted to the Section's Secretary in response to the call for participants issued in August 2005.

Each team is responsible for preparing a synthesis of relevant existing academic research for the team's assigned topic for submission to the PCAOB by late spring 2006. This is an exciting opportunity for the Auditing Section to influence standards-setting activities by summarizing relevant implications from academic research for the PCAOB. Thanks to those individuals serving on each of the teams and to everyone who submitted a nomination package. We hope this will be an ongoing activity of the Section. The list of individuals serving on each of these teams can be found on the Auditing Section's web site.

To help the teams focus on issues particularly relevant to these standards-setting activities, the PCAOB is hosting all the teams for a PCAOB/AAA Conference at the PCAOB offices in Washington, DC on February 16-17, 2006. The purpose of this conference is to bring all the teams together to hear first-hand from the PCAOB Board and its staff about issues where research insights might be helpful. This is an exciting opportunity for our Section to provide relevant research insights for those involved in important standards-setting initiatives. We are especially grateful to Doug Carmichael, Gary Holstrum, and Tom Ray, all of whom work at the PCAOB, for their work in hosting this conference. Thanks also to Jane Mutchler and Linda McDaniel, who are representing the AAA and Auditing Section, respectively, with Gary and me on the conference planning committee.

If you have research (especially current working papers) specifically related to one of the above topics, please send an email to the appropriate team leader (email noted above) with relevant information to help the team obtain access to papers related to that topic area.

### **Officer Elections**

At our Section's Annual Business Meeting, Kay Tatum, Secretary, announced the results from our officer elections that took place during fall 2005. Kay reported that Mark Peecher (University of Illinois) was elected to serve as Vice President-Academic, Julia Higgs (Florida Atlantic University) was elected to serve as Secretary,

and Trevor Stewart (Partner, Deloitte LLP) was elected to serve as Vice-President-Practice. Congratulations to all three! They will assume their offices at our Auditing Section Luncheon in August 2006.

As you know, the Section now conducts the election of officers through an electronic voting process. While the number of Section members casting their vote is significantly higher than our former process of vote casting in person at the Annual Business Meeting, the Executive Committee is closely monitoring the election process to determine whether we should continue the process of placing two candidates on the ballot for each office. We are among the few AAA Sections that currently elects officers from a slate of two per office. You can best signal to the Executive Committee your support for this current system by participating in our officer election voting and by encouraging your Section friends to participate as well. We hope to see an even greater level of participation in our Fall 2006 elections (be sure to see the Call for Officer Nominations highlighted in this edition of *The Auditor's Report*). We would like to see a record turnout in voting this fall!

### **2006 Annual Meeting**

We are well underway in planning Auditing Section activities at the 2006 AAA Annual Meeting to be held in Washington, DC, August 6-9, 2006. Julia Higgs, who is serving as our 2006 Annual Meeting Coordinator, and Chris Earley, who is assisting Julia, are hard at work facilitating the reviews of over 130 papers submitted for concurrent session consideration — a record number! Thanks to many of you who volunteered to review these papers, which is a huge undertaking.

When you register for the AAA Annual Meeting (see the AAA web site for details), be sure to sign up for the Auditing Section's luncheon, which will be held on Monday, August 7, 2006. We are excited that we will be hosting Jeanette Franzel, Director of Financial Management and Assurance at the U.S. Government Accountability Office (GAO). Ms. Franzel will provide an overview of numerous standards-setting initiatives ongoing at the GAO, including her role in representing the GAO in several international government auditing standards initiatives. She will provide GAO perspectives about issues related to internal controls for small businesses, among other current matters affecting the profession. What a great speaker for our Washington meeting. Be there!

### **New Online Journal — Still Progressing!**

Over the last year or so, you have been hearing about the Section's consideration of a potential new online journal that would focus on current issues in auditing. In fact, over 100 of you participated in a

survey about this potential journal during the fall of 2004. Since then, the Section's Education Committee and Executive Committee have been discussing issues about this journal's possibility. At its January 12, 2006 meeting, the Executive Committee reviewed a written proposal for this new online journal that was prepared by the Education Committee and agreed to take this proposal to the AAA for approval.

The goal of this journal is to provide a mechanism to establish an ongoing dialogue between members of the academic and practitioner communities. The focus on current auditing-related issues is a natural intersection for meaningful participation and dialogue with practitioners and academics because both groups share a common interest in improving the state of the art of the auditing profession.

The purpose of this journal is not to compete with any existing journal of the AAA, specifically *Auditing: A Journal of Practice and Theory*, *Issues in Accounting Education*, or *Accounting Horizons*. Rather, the mission is complimentary versus competing. The nature of articles likely to be included in this journal would more closely resemble the types of audit-focused pieces one might find in journals such as the *Journal of Accountancy* or other similar practice outlets. Articles will be much shorter and unlikely to contain statistical analyses.

The Executive Committee has submitted a written proposal to the AAA Publications Committee and AAA Executive Committee for review and discussion during spring 2006. We are excited about the potential this new journal offers and hope that we'll be able to announce later in the year its official launch!

### **Business Meeting - Section Committee Reports**

I am grateful to all those individuals who are serving on Section related committees. These individuals are busy with several initiatives for the Section. We were able to hear from each of our committee representatives during the Annual Business Meeting in January.

In addition to coordinating the research syntheses projects, the Research Committee (Jay Rich, Chair) is updating the Section's Research Database through 2005 while the Standards Committee (Bob Allen, Chair) is positioning itself to respond to upcoming exposure drafts, including its December 2005 comment letter provided on COSO's internal control for small businesses exposure draft that was issued in October (view the comment letter at our Section's web site). The Education Committee (Jay Thibodeau, Chair) reported on the development of the Section sponsored online-

journal focused on audit and assurance education. The Communications Committee (Brian Ballou, Chair) is exploring ways to raise the visibility of auditing research and education among business school deans through strengthened communications. In addition, they are working to identify ways to improve communications to Section members. Our Membership Committee (Chris Agoglia, Chair) is exploring creative ways to attract and retain members for the Section. We are pleased that our membership actually increased in 2005! The Practice Advisory Council (PAC) hosted a panel on post-Sarbanes-Oxley implications for practice at the 2006 Mid-Year Conference and is working towards PAC sponsored calls for research in 2006 — stay tuned!

Katherine Kadous, Treasurer, provided an overview of our Section's financial position and activities. Fortunately, the Section is in strong financial shape. This is important as the Section and AAA move into a new era of uncertain changes in costs and journal subscription revenues. Dan Simunic, *AJPT* Editor, provided an update of submission and acceptances for *AJPT* since assuming his role in summer 2005, and Jim Bierstaker, Editor of *The Auditor's Report*, provided an overview of new features, including the resumption of a printed version of this report. Our decision to resume a shortened print edition is in response to numerous comments from the membership for a desire to make key sections of *The Auditor's Report* available in a single bound print version. We would love to receive your feedback on whether you find the ease of receiving a print version beneficial. Thanks go to Dan and Jim for their significant editorial service.

### **2007 Mid-Year Conference**

Mark your calendars for the 2007 Auditing Section Mid-Year Conference to be held January 12-13, 2007 in Charleston, South Carolina. Our meeting will be held at the Francis Marion Hotel, which is in walking distance of the historic area. You are encouraged to contribute to the program through submissions of audit-related research and education papers (including instructional cases), and special session proposals. In addition, the section needs your help in planning and conducting the conference and in providing suggestions for session topics, panels, and/or workshops. Submissions must be received by September 1, 2006, to be considered for the program. See further details announced in this issue.

### **Help Us Help You**

As I close, I want to encourage you to help us help you by keeping us informed of relevant developments affecting the profession and the Auditing Section. We will strive to keep the Section's membership informed through our web site, which is excellently



maintained by Glen Gray, Section Webmaster, and through *The Auditor's Report*. We will periodically keep you informed of upcoming events and important information through email — so please make sure you communicate any changes in email contact information to the staff at the AAA.

Your officers are here to serve you. Please let us know how we can help make the Auditing Section even better. Here's how you can email us:

President	Mark Beasley, NC State ( <a href="mailto:mark_beasley@ncsu.edu">mark_beasley@ncsu.edu</a> )
Past President	Linda McDaniel, Kentucky ( <a href="mailto:tarcat@uky.edu">tarcat@uky.edu</a> )
Vice President-Academic	Ray Whittington, DePaul ( <a href="mailto:rwhittin@depaul.edu">rwhittin@depaul.edu</a> )
Vice President-Practice	Scott Showalter, KPMG ( <a href="mailto:dsshowalter@kpmg.com">dsshowalter@kpmg.com</a> )
Secretary	Kay Tatum, Miami ( <a href="mailto:ktatum@miami.edu">ktatum@miami.edu</a> )
Treasurer	Katherine Kadous, Emory ( <a href="mailto:kkadous@emory.edu">kkadous@emory.edu</a> )
Historian	Arnie Wright, Boston College ( <a href="mailto:wrightar@bc.edu">wrightar@bc.edu</a> )

I look forward to seeing you in Washington in August 2006. Make plans now to be there!



# THE AUDITOR'S REPORT

Volume 29, No. 2  
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AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Summary of 2006 Auditing Midyear Conference

Los Angeles, California

By Mark DeFond and Todd DeZoort

The 2006 Auditing Midyear Conference was held in Los Angeles on January 12-14, 2006, at the Hilton Universal City at Universal Studios. The meeting was held jointly with the American Accounting Association's International Section and was preceded by the 7<sup>th</sup> annual Auditing Section Doctoral Consortium.

The meeting included outstanding plenary sessions. Friday morning's session, entitled "Global Standards in our Profession: A Look at the Horizon", focused on international standard-setting initiatives. David Brown, International Federation of Accountants' Public Interest Oversight Board (PIOB) member and former Chair of the Ontario Securities Commission first discussed the PIOB's initiatives and interaction with other oversight bodies around the globe. Next, John Kellas, Chair of the International Auditing and Assurance Standards Board (IAASB), discussed IAASB initiatives and international standard setting within the European Commission. Jim Sylph, Technical Director of the International Federation of Accountants (IFAC), moderated the session. The Saturday morning session was titled "The Academy Awards Engagement". Brad Oltmanns, Member of PricewaterhouseCoopers' U.S. Board of Directors and Lead Partner on the Academy Awards engagement discussed this unique balloting engagement, mixing detail about the engagement's unique risks and methodology with interesting anecdotes from his experience interacting with celebrities at the event.



International Section President Donna Street and Auditing Section President Mark Beasley with Friday Plenary Session participants David Brown, John Kellas, and Jim Sylph.



Brad Oltmanns discussing the Academy Awards engagement during Saturday's Plenary Session.

The meeting also included four separate panel sessions. The Auditing Standards Committee sponsored a session on globalization issues affecting standards setting, including speakers from the IAASB, IFAC, PIOB, and PCAOB. The Education Committee sponsored a session on audit education for the post-Sarbanes audit environment, including panelists from Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers. The Practice Advisory Council sponsored a session focused on how large auditing firms are reinventing themselves as they move away from self-regulation, including panelists from Crowe Chizek, Grant Thornton, and KPMG. Finally, the Research Committee sponsored a session exploring two PCAOB research synthesis projects involving risk assessment and fair value auditing.

Thirty-six papers were presented in the concurrent sessions, including three teaching cases. Another 37 papers were presented at the Research Roundtable session on Saturday morning. Total attendance was 373, including 268 registrants for the Auditing Section and 105 registrants for the International Section. As in prior years, the Doctoral Consortium had a capacity group of 50 students.

Section award winners were:

- *Distinguished Service in Auditing*: Bill Felix
- *Outstanding Auditing Educator Award*: Jane Mutchler
- *Notable Contribution to the Auditing Literature Award*: Connie Becker, Mark DeFond, James Jiambalvo and K. R. Subramanyam
- *Innovation in Auditing and Assurance Education Award*: Cindy Durtschi
- *Doctoral Dissertation Award*: Tina Carpenter and advisor, Jane Reimers.

The conference program and copies of many of the papers featured at the meeting are still available at: [http://aaahq.org/audit/midyear/06midyear/2006AUD\\_program.htm](http://aaahq.org/audit/midyear/06midyear/2006AUD_program.htm).

We are very grateful to the many people who helped make this conference work. First, we want to thank

the KPMG Foundation and Bernie Milano for their faithful sponsorship and support of the AMC. Second, we thank the 2006 AMC Program Committee, including Mark Beasley, Julia Higgs, Karla Johnstone, Terry Neal, Mark Peecher, and Billy Soo. Third, we thank Wayne Thomas and Donna Street from the International Section. Fourth, we thank our friends at the AAA, including Kathy Casper, Beverly Harrelson, Diane Hazard, Dee Strahan, and Peggy Turczyn. Finally, we thank all of the authors, reviewers, discussants, moderators, and panelists who helped make the program possible.

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# THE AUDITOR'S REPORT

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AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## The Auditing Section's 7th Annual Doctoral Consortium

January 12, 2006

The Auditing Section's seventh annual doctoral consortium was held on January 12th in conjunction with the Section's 2006 Midyear Conference. The generous support of the KPMG Foundation makes the consortium possible. There were fifty attendees representing thirty-two universities. The unifying theme of the consortium was the "Chronology of a Project." The first session was a panel discussion; Andy Bailey (SEC), Gary Holstrum (PCAOB), and Ray Whittingham (ASB) helped participants recognize there is no shortage of interesting issues to study. In the second session Bill Kinney led a discussion on how one turns an observation into a research question. Then Linda McDaniel (behavioral experimental), Rachel Schwartz (analytical / experimental), and Jere Francis (archival) explored in their respective sessions how various methods can be used to answer a research question. The consortium concluded with a panel on sharing what is learned (AKA the publication process). Panelists Jane Kennedy, Bill Kinney, and Dan Simunic led a lively discussion. The consortium presentations are available for download at [http://aaahq.org/audit/midyear/06midyear/2006AUD\\_DCmeetinginfo.htm](http://aaahq.org/audit/midyear/06midyear/2006AUD_DCmeetinginfo.htm).

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**2006 Mid-Year Business Meeting  
American Accounting Association - Auditing Section  
Statement of Cash Receipts, Disbursements, and Cash Balance for Years Ended  
August 31 2004 and 2005 (Note 1)**

		<b>Annual (9/1 - 8/31)</b>	
<b>Receipts</b>	<b>2004-05</b>	<b>2003-04</b>	<b>% Chg</b>
Membership Dues	\$40,767.00	\$43,500.00	-6.3%
Journal Subscriptions	\$56,448.00	\$62,746.00	-10.0%
Sales of Publications/Royalties	\$1,849.81	\$3,023.96	-38.8%
Journal Submission Fees	\$7,425.00	\$6,675.00	+11.2%
CPE (net)	\$0.00	\$2,650.00	-100.0%
Reimbursements/Contributions (Note 2)	\$26,800.00	\$16,137.34	+66.1%
Mid-Year Meeting Registration	\$37,370.00	\$37,820.00	-1.2%
Interest Income (Note 3)	\$2,812.51	\$424.48	+562.6%
<b>Total Receipts</b>	<b>\$173,472.32</b>	<b>\$172,976.78</b>	<b>+0.3%</b>
<b>Disbursements</b>			
Awards	\$1,581.90	\$1,353.90	+16.8%
AJPT Printing (Note 4)	\$10,089.69	\$15,537.62	-35.1%
AJPT Distribution (Note 4)	\$6,845.46	\$8,677.12	-21.1%
AJPT Editorial Support (Note 4)	\$0.00	\$10,000.00	-100.0%
AJPT AAA Editorial Support (Note 4)	\$10,027.00	\$18,167.00	-44.8%
Newsletter	\$0.00	\$1,035.00	-100.0%
Mid-Year Meeting (Note 5)	\$104,966.49	\$54,578.43	+92.3%
Annual Meeting Costs	\$3,167.41	\$683.54	+363.4%
Committee Expenses	\$1,848.87	\$1,586.83	+16.5%
Council Fee	\$1,000.00	\$1,904.48	-47.5%
Postage and Miscellaneous Exp	\$3,192.28	\$2,958.65	+7.9%
<b>Total Disbursements</b>	<b>\$142,719.10</b>	<b>\$116,482.57</b>	<b>+22.5%</b>
<b>Cash Increase (Decrease)</b>	<b>\$30,753.22</b>	<b>\$56,494.21</b>	
<b>Beginning Cash Balance</b>	<b>\$184,790.95</b>	<b>\$128,296.74</b>	
<b>Ending Cash Balance</b>	<b>\$215,544.17</b>	<b>\$184,790.95</b>	

**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. FY 05 receipts represent contributions to the section from KPMG for costs related to the 2005 Mid-year Conference (\$15,000) and the 2005 Doctoral Consortium (\$11,000). FY 05 receipts also include \$800 from IVES for a coffee break. FY 04 receipts represent contributions to the section from KPMG to cover the 2004 Mid-year Conference deficit (\$11,744.57) and the 2004 Doctoral Consortium cost (\$2,392.77). In addition, the section received \$2,000 from McGraw-Hill Irwin for a reception.
3. Reflects the allocation of interest income from the AAA headquarters to the section.
4. AJPT costs are lower in 2004-05 than in 2003-04 because of a timing difference. In particular, the publication date of 2005 and subsequent journals was pushed back two months to accommodate the AAA's publication schedule.
5. The cost of the 2005 Mid-year Conference was unusually high because of the extra day and special events surrounding the 25<sup>th</sup> anniversary of AJPT. The section had saved \$30,000 for this event over the previous 3 years. Costs of the 2006 and subsequent Mid-year Conferences are expected to be more in line with the cost of the 2004 conference.

**2006 Mid-Year Business Meeting  
American Accounting Association - Auditing Section  
Comparative Statement of Cash Receipts, Disbursements, and Cash Balance for  
First Quarter, ended November 30, 2004 and 2005 (Note 1)**

	Quarter 1 (9/1 - 11/30)		% Chg
	11/30/2005	11/30/2004	
<b>Receipts</b>			
Membership Dues (Note 2)	\$16,514.00	\$13,990.00	+18.0%
Journal Subscriptions	\$17,533.00	\$21,120.00	-17.0%
Sales of Publications/Royalties	\$567.29	\$574.38	-1.2%
Journal Submission Fees	\$1,650.00	\$1,725.00	-4.3%
CPE (net)	\$0.00	\$0.00	+0.0%
Reimbursements	\$0.00	\$0.00	+0.0%
Mid-Year Meeting Registration	\$16,800.00	\$17,040.00	-1.4%
Miscellaneous Receipts	\$998.68	\$194.74	+412.8%
<b>Total Receipts</b>	<b>\$54,062.97</b>	<b>\$54,644.12</b>	-1.1%
<b>Disbursements</b>			
Awards	\$0.00	\$4,038.90	-100.0%
AJPT Printing	\$0.00	\$5,617.10	-100.0%
AJPT Distribution	\$0.00	\$4,465.26	-100.0%
AJPT Editorial Support	\$0.00	\$0.00	+0.0%
AJPT AAA Editorial Support	\$0.00	\$7,120.17	-100.0%
Newsletter	\$1592.14	\$0.00	n/a
Mid-Year Meeting	\$0.00	\$0.00	+0.0%
Annual Meeting Costs	\$0.00	\$0.00	+0.0%
Committee Expenses	\$0.00	\$0.00	+0.0%
Council Fee	\$0.00	\$0.00	+0.0%
Miscellaneous Exp	\$2005.62	\$1,086.59	+84.6%
<b>Total Disbursements</b>	<b>\$3,597.76</b>	<b>\$22,328.02</b>	-83.9%
<b>Cash Increase (Decrease)</b>	<b>\$50,465.21</b>	<b>\$32,316.10</b>	
<b>Beginning Cash Balance</b>	<b>\$215,544.17</b>	<b>\$184,790.95</b>	
<b>Ending Cash Balance</b>	<b>\$266,009.38</b>	<b>\$217,107.05</b>	

**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 28, 2004, there were 1,317 full members and 149 associate members. Of these 1,093 were from the United States and 373 were foreign members. As of October 31, 2005 there were 1,291 full members and 154 associate members. Of these, 1,091 were from the United States and 354 were foreign members.

**AUDITING: A JOURNAL OF PRACTICE & THEORY**

**Dan A. Simunic, Editor  
December 31, 2005**

<b>Processing Activity</b>	<b>1/1/05 – 12/31/05</b>	<b>1/1/04- 12/31/04</b>	<b>1/1/03 – 12/31/03</b>
Submissions:			
New	90	58	72
25 <sup>th</sup> Conference	n/a	37	
Revisions	16	27	28
Total	106	122	100
Average days for review <sup>1</sup>	35	35	33

<sup>1</sup> Add 5 days to process at submission and 3 weeks to process upon completion of reviews.

<b>Manuscripts in Inventory by Revision Stage</b>	
New Submissions	32
Round 2	19
Round 3	3
Round 4	
Round 5	
Total	54

<b>Manuscript Results</b>	<b>2005</b>		<b>2004</b>		<b>Conference</b>		<b>2003</b>	
Total Submitted	90		63		37		72	
Accepted	2	2%	2	3%	4	8	8	11%
In-Process	37	41%	29*	46%	5	7	7	10%
Rejected	51	57%	32	51%	28	57	57	79%

- Includes the 5 manuscripts carried over from the conference submissions.



### **Other *AJPT* Issues:**

- Number of new submissions is somewhat higher than in prior years.
- Mix of new submissions is heavily tilted toward archival, economics based research, with relatively few behavioral experimental studies being submitted. We've also received a few analytical papers.
- About 20-25% of the papers are coming from outside the U.S.
- The May, 2006 issue will include a statement of my editorial philosophy as well as a revised Editorial Board.
- I plan to eliminate the "Practice Summary" page and replace it with a single longer abstract (about 100-125 words) that includes comments on the practical implications of the research.
- Turnaround times are reasonable, but probably somewhat longer than under Bill Messier. This reflects my philosophy that the objective function of the journal is to publish interesting, high quality papers (not speedy "turnaround", *per se*). I also recognize that referees and Associate Editors work without compensation.



# THE AUDITOR'S REPORT

Volume 29, No. 2  
Spring 2006

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Update on the IAASB's Activities 2005

**Roger Simnett, University of New South Wales and Member IAASB**  
**James M. Sylph, IAASB Technical Director**

This update provides an overview of some of the major activities of the International Auditing and Assurance Standards Board (IAASB) during 2005. The following highlights some of the major initiatives undertaken over the past year towards achieving global convergence, highlights the process undertaken by the IAASB to improve the clarity of its Standards, outlines the Standards improved and exposure drafts issued during the year and discusses initiatives with regards translation of its pronouncements.

### **Global Convergence**

In December 2005 The Chinese Auditing Standards Board (CASB) and the IAASB released a joint statement in which the CASB stated that the fundamental principle of drafting Chinese auditing standards was to improve the Chinese auditing standards system and to accelerate its convergence with ISAs.

A similar decision has been taken by the European Union, which will shortly be going through the process of endorsing the ISAs. And there are many other countries which have similar policies. In fact, over 70 countries around the world now use ISAs as the basis for their own national standards.

The IAASB has also developed a strong working relationship with the US PCAOB. It is hoped that no further differences will develop between the two bodies of audit standards. IAASB has based its documentation standard (see below) on the recently released PCAOB standard and PCAOB is looking closely at the IAASB's risk and quality control standards as it seeks to revise its own standards in these areas.

Canada's audit standard setters are holding nationwide consultations on their proposals to move to the adoption of ISAs in the near future. The US private company audit market is also not ignored. The IAASB is working with the US ASB to align agendas and share resources. The goal is to eliminate future differences while working to eliminate existing ones.

IAASB due processes are of a very high standard. They have recently been approved by the Public Interest Oversight Board, which required a comparison of IAASB processes with those of other comparable standard setters. The IAASB's processes stood up well to this comparison, and should give those who use the standards confidence that the ISAs will be of high quality.

### **The Clarity Project**

In 2003 the IAASB undertook a review of its drafting conventions to identify ways to improve the clarity of its Standards and the consistency of their application (the Clarity project). The impetus for this project came primarily from regulators, who suggested that how the Standards were drafted gave

rise to ambiguity regarding the level of obligation placed on auditors and other professional accountants. Although the IAASB did not necessarily share this view, it led to a consideration as to how to make the Standards clearer, and at the same time deal with the issues raised by the regulators. During 2005 the key features of the project were determined and these are discussed below.

#### *Objectives-based Standards*

Each Standard will state the objective to be achieved in relation to the subject matter of the Standard. The auditor will always be required to achieve the objective stated in each Standard, where the Standard is relevant in the circumstances of the engagement. The auditor is expected to achieve that objective by complying with the requirements of the Standard, and by performing other procedures judged necessary in the circumstances.

#### *Clarifying Professional Requirements*

Each Standard will, in a separate section, specify requirements that assist the auditor in achieving the Standard's objective. Requirements are those actions or procedures considered sufficiently important to be generally required to meet the stated objective. The auditor will meet all requirements of a Standard that are relevant in the circumstances of the engagement. Requirements will be identified by the word "shall."

In exceptional circumstances where the auditor judges it necessary to depart from a requirement to achieve its purpose, the auditor will be required to document (a) how alternative procedures achieved the requirement's purpose, and (b) unless otherwise clear, the reasons for the departure. The auditor is expected to depart from a requirement only where a specifically required procedure would be ineffective in the specific circumstances of the engagement.

#### *Eliminating Ambiguity Arising from Use of the Present Tense*

Standards will no longer use the present tense (e.g. the auditor undertakes...) to describe actions or procedures of the auditor. In applying the new drafting conventions to existing Standards, sentences describing the auditor's actions or procedures in the present tense will be redrafted either by elevating the action or procedure to a requirement, or by using words that make it clear that there is no intention to impose a requirement.

#### *Improving Readability and Understandability*

New terms or expressions will be defined in a Definitions section of a Standard. All Standards will contain the following four principal sections:

- Introduction — the scope and effective date of the Standard;
- Objective — the objective to be achieved by the auditor;
- Requirements — the requirements to be complied with, together with explanatory material necessary to make the section understandable by an experienced auditor; and
- Application Material — material, supplemented in some cases by appendices, that provides further explanation and guidance supporting proper application of the Standard.

### **Standards Approved in 2005**

The IAASB finalized two Standards in 2005. The following highlights the significant features of these new Standards.

#### *ISA 230 (Revised), Audit Documentation*

The IAASB approved a revised ISA on audit documentation at its September 2005 meeting. The Standard introduces important changes designed to improve the quality of audit documentation the auditor prepares and retains. To establish the level and completeness of documentation, the Standard requires the auditor to prepare audit documentation sufficient to allow an experienced auditor, having no previous connection with the audit, to understand the audit work, the audit evidence, significant matters arising during the audit, and the auditor's conclusions.

The Standard also establishes new requirements for the auditor to prepare audit documentation promptly, and to close the audit files within a reasonable time. It explicitly restricts amendments to a closed audit file to certain exceptional circumstances. New documentation requirements are included for those very rare instances when an auditor finds it necessary to depart from the requirement of an ISA to achieve the objective of the audit.

#### *ISRE 2410, Reviews of Interim Financial Information*

In June 2005, the IAASB issued a new International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, to assist auditors in carrying out their professional responsibilities when reviewing the interim financial information of an audit client. The new Standard responds to a need in those jurisdictions that use ISAs, and that require or permit entities (primarily listed companies) to issue interim financial information that has been reviewed by their auditors.

The Standard outlines the general principles of a review of interim financial information, provides guidance on the inquiries and the analytical and other review procedures the auditor is to perform, and prescribes the content of the review report. The Standard also provides guidance on the engagement and management representation letters the auditor may obtain when performing the review, and includes illustrative review reports.

A copy of the complete handbook of ISAs can be accessed at <http://www.ifac.org/Store/Category.tmpl?Category=Auditing%2C%20Assurance%20%26%20Related%20Services>

#### **Exposure Drafts Issued in 2005**

The following highlights the significant elements of the proposed new or revised Standards that the IAASB exposed during the year. Copies can be found at <http://www.ifac.org/Guidance/EXD-Outstanding.php>

#### *Proposed Standards Redrafted Under the Clarity Convention*

As the first step in implementing the new drafting conventions under the Clarity project, the IAASB issued exposure drafts of four existing Standards in October 2005. These proposed redrafted ISAs are:

- ISA 240, *The Auditor's Responsibility To Consider Fraud in an Audit of Financial Statements*;
- ISA 300, *Planning an Audit of Financial Statements*;
- ISA 315, *Obtaining an Understanding of the Entity and Its Environment and Assessing the Risks of Material Misstatement*; and
- ISA 330, *The Auditor's Procedures in Response to Assessed Risks*.

In addition, to conform the Preface to the clarity drafting conventions, the IAASB issued an exposure draft of proposed amendments to the *Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services*.

#### *Proposed New Standards on Reporting on Other Historical Financial Information and Summary Audited Financial Statements*

At its June 2005 meeting, the IAASB approved the exposure drafts of the proposed new ISA 701, *The Independent Auditor's Report on Other Historical Financial Information*, and the proposed new ISA 800, *The Auditor's Report on Summary Audited Financial Statements*. In developing these proposed new standards, the IAASB made changes necessary for consistency with the recently revised ISA 700, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.

The proposed ISA 701 addresses auditors' reports for a wide variety of engagements, including reporting on a single financial statement, or on a specific element of a financial statement. It also



provides guidance on (a) determining the acceptability of the financial reporting framework used in preparing and presenting the financial information, and (b) matters the auditor considers in forming an opinion on the financial information. It includes considerations relevant both to financial statements designed to give a true and fair view or fair presentation, and to financial statements prepared under a compliance framework.

The proposed new ISA 800 recognizes that criteria for preparing and presenting summary financial statements may not exist. It contains new standards and guidance on the criteria and procedures applicable to an engagement to report on summary financial statements.

#### *Proposed Group Audit Standard*

In March 2005, the IAASB approved for re-exposure the proposed revised ISA 600, *The Audit of Group Financial Statements*, designed to enhance the quality of group financial statement audits. This re-exposure draft was developed based on comments received on an earlier exposure draft. To reflect the importance placed on sufficient involvement of the group auditor in the work of other auditors participating in the group audit, the proposed Standard requires the group auditor to perform the work, or be involved in the work of other auditors, on all significant components of the group. The group auditor is also required to perform specific procedures in relation to the work performed on a component of the group by any other auditor, and to consider its adequacy for the purposes of the group audit.

#### *Proposed Standard on Communication with Those Charged with Governance*

Recognizing that sound corporate governance depends in part on a proper relationship between the auditor and those charged with governance, in March 2005 the IAASB approved for exposure proposed revised ISA 260, *The Auditor's Communication with Those Charged with Governance*. The proposed Standard is designed to improve the quality and relevance of the discussions between the auditor and those charged with governance.

The proposed Standard includes new guidance dealing with the communication process, reflecting its importance in audit effectiveness, and sets out a framework for communication with those charged with governance. The proposed Standard describes more specifically than the existing standard what the auditor should communicate, and why. Included in matters to be communicated are those outside the financial reporting and disclosure process that the auditor becomes aware of, and that are considered so serious as to require communication. For listed entities, it also proposes to require certain categorized disclosures about fees charged for audit and non-audit services provided by the audit firm in the previous 12 months.

#### *Proposed Standards on Modified Opinions and Emphases of Matter*

In March 2005, the IAASB also approved exposure drafts of the proposed ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, and the proposed ISA 706, *Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report*. These exposure drafts are intended to drive greater consistency of auditor reporting among jurisdictions.

The proposed ISA 705 establishes standards and provides guidance, including illustrative examples, on circumstances that may cause the auditor to modify the opinion on the financial statements. It aims to clarify when the opinion should be modified, explains the different possible types of modifications appropriate to the circumstances, and proposes general requirements for the form and content of modified auditors' reports.

As part of this project, the IAASB concluded that it would be clearer to separate the standards on modifications to the opinion from those dealing with emphasis of matter and other matters paragraphs in the auditor's report. The IAASB therefore also exposed the proposed ISA 706, which contains standards and guidance on when the auditor should emphasize specific matters, or bring "other matters" to users' attention, in the auditor's report. This draft includes proposals on the form and

placement of the paragraphs to be used to communicate such matters in the auditor's report.

### *Proposed Related Parties Standard*

In December 2005, the IAASB approved the exposure draft of the proposed revised ISA 550, *Related Parties*, drafted under the new clarity conventions. This proposed Standard sets out more extensive requirements and application material that recognize the particular risks associated with related parties, including the risks of non-identification and non-disclosure, and fraud.

The proposed Standard strengthens current practice by requiring the auditor to obtain an understanding of the nature and business rationale of an entity's related party relationships and transactions, sufficient for the auditor to identify, assess and respond to the risks of material misstatements resulting from them. It also requires the auditor to perform procedures to identify related party relationships and transactions not identified or disclosed by management.

The proposed Standard places new emphasis on evaluating the effects of related party relationships and transactions on the financial statements, even where the financial reporting framework does not establish related party accounting or disclosure requirements.

### **Translation of IAASB Pronouncements**

To increase the worldwide accessibility of IFAC standards and guidance, and to enable high-quality translations into languages other than English, in 2004 IFAC approved a Policy Statement, *Translation of Standards and Guidance Issued by the International Federation of Accountants*, that outlines the procedures to be followed by external organizations in translating its pronouncements. The Policy Statement on translation can be accessed and downloaded from IFAC's website at [www.ifac.org](http://www.ifac.org).

In the context of this effort to encourage wider translation of IFAC Standards, during 2005 IFAC signed an agreement with two of its member bodies — Compagnie Nationale des Commissaires aux Comptes (CNCC) in France and Institut des Reviseurs d'Entreprises (IRE) in Belgium — to translate the ISAs into French. This agreement is significant in light of the adoption of ISAs in the EU following the EC's recent finalization of the Eighth Company Law Directive. The success of this initiative has led to the formation of a similar working group between IRE Belgium and Royal NIVRA, aimed at producing a single, agreed translation of ISAs into Dutch. The French and Dutch translation efforts may represent appropriate models for cooperation for translation of the Standards into other languages.

During the year, IFAC also granted permission for the ISAs to be translated into Bulgarian, German, Lithuanian, Mongolian, Polish, Romanian, Russian, Serbian, Slovak, and Spanish.

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

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

**Brian T. Croteau, Office of the Chief Accountant of the SEC**  
**Audrey A. Gramling, Kennesaw State University,**  
**Member of the AAA's SEC Liaison Committee**

This column is intended to inform the readers of *The Auditor's Report* of some of the current activities of the *Professional Practice* group in the U.S. Securities and Exchange Commission's Office of the Chief Accountant (OCA).

The Office of the Chief Accountant is organized into three complimenting groups: *Accounting*, *Professional Practice*, and *International Affairs*. These groups collaboratively serve as the principal adviser to the Commission on accounting and auditing matters. The primary activities of the OCA include:

- Overseeing and/or interacting with many other standard setting bodies, including the FASB; IASB; PCAOB; EITF; and IFRIC;
- Addressing registrant matters that are brought to the attention of OCA; and
- "Pre-Clearing" issuer questions.

In terms of developing rules and guidance, OCA has responsibility for:

- Together with the PCAOB, independence standards for auditors of public companies;
- SEC staff guidance (e.g. Staff Accounting Bulletins and frequently asked questions and answers); and
- Other staff reports.

In general, OCA staff has a considerable amount of interface with preparers and auditors of financial statements. The activities of the *Professional Practice* group are of potential interest to the readers of

*The Auditor's Report.* The *Professional Practice* group works closely with the Public Company Accounting Oversight Board (PCAOB) as the PCAOB develops auditing and related standards to promote the development of reliable financial reporting information. The group also assists in the resolution of auditor and preparer independence and ethical matters that gain the attention of the Commission.

This update focuses on some of the staff's activities that relate to SEC oversight of the PCAOB and independence standards for auditors of public companies. Both issues were discussed in December by the SEC staff at the *2005 AICPA National Conference on Current SEC and PCAOB Developments*. Links to the full text of these speeches can be found below. We have summarized some of the key points raised in these speeches, and we encourage those interested to read the full text of the speeches. Another area of importance to the *Professional Practice Group* is internal control reporting. While this issue is not discussed in our comments below, the interested reader can refer to a recent SEC staff speech on the topic at <http://www.sec.gov/news/speech/spch120505jmb.htm>.

### **Independence Issues** (<http://www.sec.gov/news/speech/spch120505ewb.htm>)

The speech referenced above provides insight into OCA staff reflections on auditor independence issues post Sarbanes-Oxley. Auditor independence is primarily overseen by the PCAOB and the SEC. Currently auditor independence relies on a system of fundamental principles based on a set of very specific rules. These rules were promulgated in 2000 and strengthened in 2003, based on the passage of Title II of the Sarbanes-Oxley Act.

An alternative to the current system that the staff in OCA has been considering would be a system that relies more on principles and objectives, rather than specific proscriptions. As noted in the speech, a possible "principles based" approach would encompass a set of principles, as well as a set of constant, concise and coherent rules, and, new safeguards. It is envisioned that such a system would be conditioned upon improvements in audit firms' independence monitoring and tracking systems and upon PCAOB's oversight of auditor independence. A principles-based system is thought to only work in an environment where auditor independence judgments are based on principles, and not on how close to a rule one can go without breaking the rule. Such a system would require that the profession not push the boundaries.

Given that the above referenced speech does not indicate that changes to the independence standards are imminent, the safeguards discussed (i.e., changes in attitudes, monitoring, and documentation) provide opportunities for academic investigations of the effectiveness and viability for ensuring auditor independence in a principles-based environment.

### **SEC Oversight of the PCAOB** (<http://www.sec.gov/news/speech/spch120505bc.htm>)

The PCAOB is a private sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies to protect the interests of investors and further public interest in the preparation of informative, fair, and independent audit reports. The speech referenced above provides insight into how the SEC and the PCAOB interact on a day-to-day basis, and, how through those interactions the SEC effectively discharges its oversight responsibilities. OCA has a significant role in this oversight work, however, responsibilities extend across many offices and divisions within the Commission.



The SEC's oversight responsibility is outlined primarily in Section 107 of the Sarbanes-Oxley Act (Act). This oversight responsibility is accomplished through formal and informal activities and interactions between the PCAOB and its staff.

In addition to general oversight responsibility, the Commission has specific responsibilities, including the appointments of board members, the approval of the annual budget and accounting support fee, and the approval of rules and professional standards established by the PCAOB.

In terms of standard setting, the PCAOB works with the SEC through a variety of mechanisms. For example, the SEC staff participates in the PCAOB's Standing Advisory Group (SAG) meetings, where issues related to professional standards are often discussed. In addition, Commission staff meets regularly with the Board's staff to discuss emerging practice matters and to provide input on standard-setting activities. The SEC staff provides input and insights, recognizing that it is the PCAOB's rule or standard that is being drafted and interpreted. The PCAOB and SEC generally separately expose proposed rules and standards for public comment. Such rules and standards do not become effective unless approved by *both* the PCAOB and the Commission.

Section 104 of the Act requires that the PCAOB conduct a continuing program of inspections of registered public accounting firms. The SEC also has a role with respect to these inspections of registered public accounting firms. As part of the oversight process, the Commission receives copies of the final full inspection reports. Registered accounting firms can raise disputes to the Commission, within prescribed time limits, regarding findings in any final inspection reports and PCAOB determinations regarding the resolution of quality control criticisms. Although issuers may become aware that their audit is the subject of an inspection, they would not contact the PCAOB to discuss accounting matters. If the PCAOB raises questions to the accounting firm about the application of GAAP, the accounting firm and/or the issuer may ultimately conclude that consultation with OCA is appropriate.

The other areas where there is SEC oversight of, and interaction with, the PCAOB and its staff include investigations and review of disciplinary actions taken by the Board.

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

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

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## **Audit Education for the Post-Sarbanes Audit Environment**

**Jay Thibodeau, Greg Jenkins, and Dick Riley**

The Education Committee sponsored a panel discussion at the Section's 2006 MidYear Conference in Los Angeles. This article provides an overview of the thoughts that were shared during the panel discussion as well as through conversation with the panelists in the weeks leading up to the meeting in Los Angeles. The panel members included Craig Wendt of PricewaterhouseCoopers, Jason Emmons of Deloitte & Touche, Terry Hosey of Ernst & Young and Bruce Cameron of KPMG. The panel was moderated by Jay C. Thibodeau (Bentley), Chair of the Education Committee. Additional Education Committee members include Mike Akers (Marquette), Greg Jenkins (Virginia Tech) and Dick Riley (West Virginia University).

### ***Introduction***

Recognizing the dramatic changes that have occurred to audit processes for publicly traded companies as a result of the Sarbanes-Oxley Act of 2002 (SOX), the Education Committee hosted a panel discussion at the 2006 MidYear Conference to address some of the resultant educational challenges. Each panelist was asked to share insights related to his firm's training program along one of several important dimensions. Craig Wendt highlighted changes in Partner/Manager training at PricewaterhouseCoopers. Bruce Cameron of KPMG described some of the changes that have occurred in Staff training at the firm. Terry Hosey highlighted changes that have occurred in fraud and forensic accounting training for auditing professionals at Ernst & Young. And, Jason Emmons discussed the many changes that have occurred in information technology training at Deloitte & Touche. The overall objective of the panel discussion was to provide faculty an overview of how the Big Four firms are approaching training issues associated with SOX and other changes in the audit environment and to generate ideas for incorporation into the classroom. The following paragraphs provide a brief summary of the themes and perspectives provided by the panelists in several important areas.

### ***Internal Control***

Under Generally Accepted Auditing Standards (GAAS), auditors have always been required to gain an understanding of a client's internal control system. However, prior to the Public Company Accounting Oversight Board's issuance of Auditing Standard No. 2 (AS No. 2), *An Audit of Internal Control over Financial Reporting Performed in Conjunction with An Audit of Financial Statements*,

auditors had a choice regarding the amount of work to be completed on a client's internal control. That is, an auditor was only required to obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing and extent of substantive audit testing. After gaining a sufficient understanding, if the auditor felt that internal control could not be relied upon, GAAS allowed auditors to stop work on the internal control and instead rely to a larger degree on evidence obtained from substantive tests to reach conclusions about management's financial statement assertions. Now however, auditors of public companies must evaluate the operating effectiveness of each important control procedure regardless of planned substantive testing. As a result, the auditor's consideration and work related to a client's internal control has dramatically increased.

Panelists encouraged faculty to emphasize the critical nature of internal control design and operating effectiveness. More specifically still, students need to hone skills related to linking various internal controls to the proper internal control objective and ultimately to the proper financial statement assertion. The panelists identified such knowledge as fundamental for all auditors to possess in the current environment.

### ***Financial Statement Assertions***

As noted in the prior section, auditors are devoting more time to the linkage of internal controls to financial statement assertions. The panelists pointed out that this process is almost reversed in the sense that auditors now look at each financial statement line item, ask what are the related assertions and work back to ensure that necessary internal controls and processes are, in fact, protecting the integrity of those assertions. While information underlying the assertions must also be examined with substantive testing, the fundamental point is that financial statement assertions are now central to the audit process. Accordingly, students need to have an in depth understanding of the assertions, including tying assertions to controls and substantive testing. And, students need to have opportunities in the classroom to learn about "completing the circle." That is, auditors must be able to combine results of controls testing substantive testing to draw conclusions about the reasonableness of the financial statement assertion and fairness of the account balance. The firms training programs are emphasizing these relationships.

### ***Auditing in a Digital Environment***

The panelists pointed out that AS No. 2 has dramatically increased the need for auditors to understand links among a company's general controls related to the information technology (IT) function and the financial statements. In the broadest sense, the general controls need to be sufficiently developed and operating to ensure that the computing environment is conducive to allowing the application controls to operate effectively. Each of the panelists identified such IT knowledge as a critical competency. So, faculty should consider ways in which students can develop a more thorough understanding of general controls and application controls. Finally, the panelists pointed out the severe shortage in the number of qualified graduates in this area.

### ***Fraud and Forensic Accounting***

Auditors are performing expanded fraud and forensic-type audit procedures in the post SOX environment. The panel indicated that entry-level professionals can benefit significantly from being exposed to fraud and forensic accounting topics in the college classroom. More specifically, the

panelists urged faculty to allow students opportunities to discuss the knowledge, skills and abilities that auditors need to detect all types of fraud. Most students are intrigued by fraud and forensic topics, so faculty should find it relatively easy to develop assignments (e.g., readings, cases, practice sets, and so forth) that are interesting to students and effective at broadening their knowledge in the area. Panelists also encouraged faculty to discuss the importance of professional skepticism. The faculty member's challenge here is to help students develop an appreciation for the nuances of such skepticism.

### ***Accounting and Auditing Knowledge***

Panelists unanimously agreed that entry level professionals seem to be entering the firms with a thorough knowledge of accounting. This appears to be less common as it relates to knowledge of auditing. While the panelists recognized the problem of scarce resources in the higher education environment, they stated that they observe a difference between the knowledge, skills and abilities of those students with a single undergraduate auditing course compared to those students who have been through a graduate program that includes a second course in auditing. As a result, more auditing related coursework is highly recommended for students.

### ***Audit Environment***

The panelists observed that the power of chief financial officers and chief information officers to impact change throughout the organization has increased since the enactment of SOX. While the cost of implementing SOX has been high, many companies have leveraged the requirement to document their internal control processes into an opportunity to evaluate the business value of those processes. Panelists indicated that companies have, in some cases, re-engineered various processes for the overall betterment of the company and that these efforts have resulted in such benefits as lower costs and improved customer service. If the requirements of SOX are met in the spirit of business improvement, companies have the potential to improve performance over the long-term, not just add burden to the organization. Another perceived benefit of the new requirements according to the panelists is that "auditors can be auditors again." It appears as though auditors now have far more leverage to make sure the client does things correctly.

### ***Critical Thinking and Problem-Solving***

While it appears to be an age-old problem, students need to improve their critical thinking and problem-solving skills. Accordingly, the panelists encouraged faculty to continue to developing assignments and teaching opportunities to sharpen these skills. Such skills are critically important in helping students develop their professional judgment for use in the profession.

### ***Final Thoughts***

The panelists laid out a number of challenging issues for us — increasing students' knowledge of internal controls, financial statement assertions, IT general controls, fraud and forensic accounting, and critical thinking and problem-solving skills. Some of these issues have been present in the education environment for many years, while others are of a more contemporary nature. What is clear from the panel discussion is that we must be diligent in the classroom and continue to seek out new and innovative pedagogical tools and techniques to prepare our students to enter the ever-changing



world of auditing.

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## NIJ Special Report

# **Education and Training in Fraud and Forensic Accounting: A Guide for Educational Institutions, Stakeholder Organizations, Faculty and Students**

NOTE: The following is based on an exposure draft of the curriculum. The contents of the exposure draft have not been approved by the National Institute of Justice. All content and opinions presented in the exposure draft are the responsibility of the principle investigators, the planning panel and the technical working group. To obtain a complete copy of the model curriculum and/or an implementation guide, please send an email to [FFAModel@mail.wvu.edu](mailto:FFAModel@mail.wvu.edu).

### **Overview**

As a result of recent, highly-publicized financial scandals, reported increases in occupational fraud, and heightened concerns over money laundering to support terrorism and racketeering, legislative mandates and public expectations have heightened the necessity to further define the auditor's and accountant's responsibility for detecting fraud within organizations. Successful fraud or forensic accounting analyses and findings reported by practicing professionals may be the difference between whether perpetrators avoid detection of their illegal activities or they are brought to justice. In most cases, success is directly and primarily dependent upon the knowledge, skills and abilities of the professionals performing the work. Consequently, the demand for entry-level professionals with formal education in fraud and forensic accounting has grown. Academic institutions and stakeholder organizations that provide education in these fields are faced with a number of questions regarding the nature, extent and format of a worthwhile curriculum.

West Virginia University, with funding from the National Institute of Justice,<sup>1</sup> organized a Technical Working Group (TWG) to examine fraud and forensic accounting issues and to develop model curriculum guidelines. The TWG process began in December 2003 with the formation of a planning panel consisting of 14 individuals representing various stakeholder groups in the areas of research, practice and education. The planning panel recruited an additional 32 individuals representing practitioners from the law enforcement and business communities, professional organizations, regulators and other government agencies, academicians, researchers and authors.

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<sup>1</sup> This project is supported by Award No. 2001-RC-CX-K003 from the National Institute of Justice (NIJ), Office of Justice Programs. The NIJ is the research, development and evaluation agency of the U.S. Department of Justice. We remain grateful to the NIJ for their financial support.

The TWG intends that the content detailed in this document assist colleges, universities, professors, course developers and training professionals as follows:

- (1) To select curricula and course content when the desire is to create multiple courses/training modules in the areas of fraud and/or forensic accounting.
- (2) To provide students with an introduction to fraud and/or forensic accounting through a stand-alone exposure course/training module.
- (3) To make modifications to existing auditing, information systems and other business or accounting course content to provide students and practicing professionals with exposure to fraud and/or forensic accounting.
- (4) To provide curriculum recommendations and outline course content for use by professional development providers, law enforcement trainers and continuing professional education providers to generate courses, training modules and materials in the specialized area of fraud and forensic accounting.
- (5) To provide guidance for training and development in the area of fraud and forensic accounting for executives, management, attorneys, board members, audit committee members and other interested stakeholders.

## **Findings**

The TWG identified the following primary content areas for fraud and forensic accounting curricula:

- (1) Criminology, specifically oriented to the nature, dynamics, and scope of fraud and financial crimes; the legal environment; and ethical issues
- (2) Fraud prevention, deterrence, detection, investigation and remediation:<sup>2</sup>
  - a. Asset misappropriation, corruption and false representations
  - b. Financial statement fraud
  - c. Fraud and forensic accounting in a digital environment, including:
    - computer-based tools and techniques for detection and investigation
    - electronic case management tools
    - other issues specific to computerized environments

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<sup>2</sup> Fraud prevention refers to creating and maintaining environments where fraudulent activities are minimized. Fraud prevention contrasts with fraud deterrence, which refers to creating and maintaining environments where fraud is mitigated, subject to cost-benefit constraints. Some practicing professionals argue that fraud prevention implies, and is only possible, if the root causes of fraud, such as greed, financial pressure, etc., are eliminated.

- (3) Forensic and litigation advisory services, including research and analysis, valuation of losses and damages, dispute investigation and conflict resolution, including arbitration and mediation

### **Building Knowledge, Skills and Abilities**

The progression of knowledge, skills and abilities for fraud and forensic accounting for entry-level professionals is presented in the Figure below. The first two columns address prerequisite accounting, auditing and business law knowledge that is considered necessary for the fraud and forensic accounting curriculum. Column 3 of the Figure shows the exposure to fraud and forensic accounting topics that may be covered in an undergraduate or graduate curriculum. Colleges, universities and other curriculum providers *may use the Column 3 outline of topical areas as a guide to provide exposure to students by incorporating coverage in current offerings or may add a single course/training module*. Columns 4 and 5 of the Figure provide an overview of the model curriculum areas required for in-depth study.

Figure				
Prerequisite Knowledge		Exposure Material / Course	In-Depth Course Material	
(1) Commonly Included in Undergraduate Accounting Curriculum	(2) Commonly Included in Business Core or Electives	(3) Core Fraud and Forensic Accounting	(4) Fraud	(5) Forensic Accounting
<p>Basic accounting</p> <ul style="list-style-type: none"> <li>• Basic financial statements and note disclosures</li> <li>• The effects of debits and credits on account balances</li> <li>• Account analysis</li> <li>• Computation of key financial ratios, common size financials, etc.</li> </ul> <p>Basic auditing concepts</p> <ul style="list-style-type: none"> <li>• Professional skepticism</li> <li>• Relevant auditing standards</li> <li>• Professional and regulatory bodies</li> <li>• Types of audit evidence</li> </ul> <p>Basics of transaction processing cycles and internal controls, including computer-based information system controls</p> <p>Basics of business law</p> <p>Basic computer skills</p>	<p>General business communication skills (oral and written)</p> <p>Business ethics</p>	<p>Definition of fraud</p> <p>Definition of forensic accounting</p> <p>Basic discussion of the roles of auditors, fraud professionals and forensic accountants</p> <p>Overview of who commits fraud and why and the fraud triangle:</p> <ul style="list-style-type: none"> <li>• Pressure</li> <li>• Opportunity</li> <li>• Rationalization</li> </ul> <p>Overview of the elements of fraud:</p> <ul style="list-style-type: none"> <li>• Act</li> <li>• Concealment</li> <li>• Conversion</li> </ul> <p>Discussion of fraud prevention, deterrence, detection, investigation and remediation</p> <p>Overview of common fraud acts including asset misappropriations and fraudulent financial reporting</p> <p>Discussion of "red flags"</p> <p>Discussion of fraud remediation: criminal and civil litigation and internal controls</p> <p>Discussion of types of forensic and litigation advisory engagements</p>	<p>Criminology; Legal, Regulatory and Professional Environment; Ethical Issues</p> <p>Fraud and Forensic Accounting: Asset Misappropriations, Corruption and False Representations Financial Statement Fraud Fraud and Forensic Accounting in a Digital Environment</p> <p>Forensic and Litigation Advisory Services</p>	







# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## What Accounting Students Need to Know About Fraud Part II

Joseph T. Wells

In the last issue, we began a discussion of what accounting students need to know about fraud. I argued that because fraud is a crime, it involves more than simply accounting knowledge and I briefly outlined certain legal and criminological concepts. According to Black's Law Dictionary, fraud is "...all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of truth. It includes all surprise, trick, cunning or dissembling, and any unfair way which another is cheated."

The breadth of this definition would seem to imply that there are almost an unlimited number of ways to commit fraud. However, accounting students will work almost exclusively with occupational fraud — those frauds that are committed by employees or executives of organizations in order to enrich themselves. There are not an unlimited number of occupational frauds. By researching and analyzing over 2,000 actual cases, the Association of Certified Fraud Examiners (ACFE) concluded that there are three general categories of occupational fraud that can be broken down into 13 specific schemes.

My teaching at the University of Texas concentrates largely on defining and identifying those fraud schemes so that students can recognize their earmarks. My textbook, *Principles of Fraud Examination*, details the schemes, along with the methods used to detect, investigate and prevent them. Occupational frauds can first be divided into asset misappropriations, corruption, and fraudulent statements.

### Asset Misappropriation Schemes

Asset misappropriations account — by volume — for about eight in ten occupational frauds. They are by far the most common but the least expensive schemes, averaging about \$65,000 per incident. However, it is not uncommon for asset misappropriations that run in the millions. Because these are the frauds most likely to be encountered by accountants in the real world, about half of the semester is devoted to them. Independent auditors, of course, have no obligation to detect fraud that is not material to the financial statements. But what is immaterial to the auditor is frequently material to the client, and the client frequently loses confidence in the auditor if he or she fails to detect a fraud. Most asset misappropriations are fairly straightforward and can be recognized by accountants with proper training.

## Cash

Not surprisingly, cash is the favored target for misappropriation, accounting for the lion's share of cases. There are three principle schemes: skimming, larceny and fraudulent disbursements, along with numerous sub-schemes.

### Skimming

Skimming is the theft of cash *prior* to it being recorded in the organization's accounting system. Typical suspects include cashiers and tellers, mailroom clerks, route salespersons and others who handle or account for cash at the point of sale. Detecting skimming presents particular problems in the audit process since there are often no documents of original entry, such as sales invoices. Generally, these cases are detected circumstantially by inventory shrinkage or sales/cost of sales ratios that are irregular.

### Larceny

Larceny of cash occurs *after* funds have been recorded in the books and there is no effort to conceal the theft. Because organizations usually keep tight control over currency, cash larceny is uncommon, the losses are generally small and the schemes are detected quickly.

### Fraudulent Disbursements

Fraudulent disbursements usually account for an organization's largest asset misappropriation losses; while not every entity handles cash, they all write checks. Fraudulent disbursements fall into four major subcategories. *Register disbursement schemes* take advantage of fake voids and refunds to account for missing cash. They are the smallest of the fraudulent disbursement schemes. *Check tampering* occurs when an employee alters a check meant for another, such as changing the name of the payee on the face of the check. *Payroll schemes* are used to overpay an employee through inflated hours or wages, while some schemes utilize the "ghost employee" to collect an extra paycheck.

*Billing schemes* are the most common and the costliest category of fraudulent disbursements. Typically, an employee, unbeknownst to the employer, will set up a fake company to bill the employer for goods not delivered or services not rendered. A variation is called a *pass-through scheme*, where an employee (usually in the purchasing department) will buy goods from a legitimate supplier, mark them up and resell the merchandise to his employer at an inflated cost.

Although a discussion of the accounting clues to the above schemes is beyond the scope of this article, my students are well versed in not only the schemes themselves, but also how to detect them. All asset misappropriations, regardless of type, will reflect a higher ratio of cost of sales to sales than would be present otherwise.

## Non-Cash

Non-cash asset misappropriations occur in less than 20 percent of cases, and are

typically concentrated in industries that carry desirable consumer goods. Although fixed assets are also subject to misappropriation, inventory fraud and theft are much more common. My students learn that accountability and good physical security are the best ways to control non-cash asset misappropriations, including video surveillance and other methods.

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

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# THE AUDITOR'S REPORT

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## ASB Update as of January 31, 2006

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

I was appointed to the Auditing Standards Board effective January 1, 2006, and attended my first board meeting January 10-12 in San Diego. The most significant development since the last ASB update published in the Spring 2005 Auditor's Report, is that the ASB has issued eight very significant Statements on Auditing Standards relating to the assessment of risk in an audit of financial statements. Consistent with the Board's new strategic direction, the ASB worked closely with the International Auditing and Assurance Standards Board to promote the convergence of U.S. and international auditing standards. These risk assessment standards are an important step in the AICPA's efforts to develop stronger and more definitive auditing standards to enhance auditor performance and improve audit effectiveness for the audits of non-public entities. The eight risk assessment standards were issued together because their concepts are closely interrelated. The Statements will be effective for audits of financial statements for periods beginning on or after December 15, 2006, but early adoption is permitted.

The Board's executive summary released with the eight risk assessment standards indicates that these eight Statements:

...establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit. The primary objective of these Statements is to enhance auditors' application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent



of audit procedures performed in response to those risks.

The statements included in the "risk assessment suite" are listed below:

Statement on Auditing Standards No. 104, Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")

Statement on Auditing Standards No. 105, Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards

Statement on Auditing Standards No. 106, Audit Evidence

Statement on Auditing Standards No. 107, Audit Risk and Materiality in Conducting an Audit

Statement on Auditing Standards No. 108, Planning and Supervision

Statement on Auditing Standards No. 109, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

Statement on Auditing Standards No. 110, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained

Statement on Auditing Standards No. 111, Amendment to Statement on Auditing Standards No. 39, Audit Sampling

Among others, the ASB is currently working on projects relating to communications by the auditor to those charged with governance and audit reports. These items will be summarized briefly in the next issue of *The Auditor's Report*.

Of particular interest to the Auditing Section membership, the ASB is interested in working with the Section to encourage research relevant to the Board's deliberations on audit reports. Stay tuned for further announcements and a forthcoming request for proposals from the Board.

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# THE AUDITOR'S REPORT

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## PCAOB Standards-Setting Update<sup>1</sup>

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

### Transitions.

Since the last update article in the [Fall 2005](#) issue, there have been significant transitions in key leadership positions related to PCAOB standards-setting. For the standards-setting group (the Office of the Chief Auditor), the [PCAOB has selected Thomas Ray as Chief Auditor and Director of Professional Standards](#). Tom succeeds Doug Carmichael, who decided to leave his position at the end of January, after almost three years at the helm of the professional standards group following his appointment as the first Chief Auditor of the PCAOB in April 2003. Dr. Carmichael is rejoining the faculty of Baruch College, City University of New York. Tom Ray had worked closely with Doug as Deputy Chief Auditor since June 2003. Prior to joining the PCAOB, Tom was a partner with KPMG. He has been active throughout his professional career in the application and development of U.S. and international auditing standards, including serving as the Director of Audit and Attest Standards at the AICPA.

There also has been a significant change for the Board of the PCAOB. [Bill Gradison, one of the five original members of the Board, has been named the Acting Chairman](#), succeeding William McDonough, who decided to leave his post as of the end of November. Mr. McDonough recently took a position with Merrill Lynch. Prior to joining the PCAOB, Mr. Gradison held elective office for more than 30 years, including 18 years in Congress, after which he headed a Washington-based trade association for six years and served as senior counselor at the Washington law firm Patton Boggs. Bill has a strong interest in research and education, having received an MBA and doctorate from the Harvard Business School, where he also served on its finance faculty.

Finally, significant transitions in key positions have occurred at the SEC that will affect the PCAOB due to the close working relationship between these two organizations. The SEC, for example, must approve PCAOB standards before they become effective. The SEC also is undergoing significant transition in key positions. SEC Chief Accountant, Don Nicolaisen, decided to leave his position as of the end of November, and Scott Taub, former Deputy Chief Accountant, has been named Acting Chief Accountant. Andy Bailey, SEC Deputy Chief Accountant primarily responsible for auditing and interfacing with the PCAOB, decided to leave his position in December, and the SEC has not yet named a replacement.

### PCAOB Standards-Setting Projects and Related Research Synthesis Projects.

The Auditing Section has formed nine teams of researchers to develop a synthesis of research relevant to each of the following nine 2006 PCAOB standards-setting projects (Note hyperlinks to related PCAOB briefing papers):

1. [Auditor Risk Assessments](#)  
Research Team Leader: Dana Hermanson ([dhermans@kennesaw.edu](mailto:dhermans@kennesaw.edu))
2. [Audits of Fair Value](#)  
Research Team Leader: Roger Martin ([rdm3h@comm.virginia.edu](mailto:rdm3h@comm.virginia.edu))
3. [Audit Confirmations](#)  
Research Team Leader: Randy Elder ([rjelder@sy.edu](mailto:rjelder@sy.edu))
4. [Audit Firm Quality Control](#)  
Research Team Leader: Jean Bedard ([jbedard@bentley.edu](mailto:jbedard@bentley.edu))
5. [Audit Reporting Model](#)  
Research Team Leader: Bryan Church ([bryan.church@mgt.gatech.edu](mailto:bryan.church@mgt.gatech.edu))
6. [Auditing Related Party Transactions](#)  
Research Team Leader: Elaine Henry ([ehenry@exchange.sba.miami.edu](mailto:ehenry@exchange.sba.miami.edu))
7. [Communications with Audit Committees](#)  
Research Team Leader: Arnie Wright ([Wrightar@bc.edu](mailto:Wrightar@bc.edu))
8. [Engagement Quality Review](#)  
Research Team Leader: Arnie Schneider ([arnold.schneider@mgt.gatech.edu](mailto:arnold.schneider@mgt.gatech.edu))
9. [Financial Fraud](#)  
Research Team Leader: Chris Hogan ([chogan@mail.cox.smu.edu](mailto:chogan@mail.cox.smu.edu))

The Risk Assessment and Fair Value teams were formed about a year ago. The Risk Assessment Team has completed its project and its research synthesis is forthcoming in *Accounting Horizons*. The Fair Value Team is nearing completion of its project. Both of these teams made presentations at the Section's Mid-Year Meeting in January. The other seven teams were formed in November 2005 with the expectation that they will complete their research synthesis projects by March or April 2006.

Each team will address the issues raised in the related PCAOB briefing papers and will consult with PCAOB staff who lead the standards-setting projects. The resulting research syntheses should be helpful to the PCAOB in formulating appropriate standards and also to accounting and auditing researchers, educators, auditors, and students.

We encourage readers who have performed research and completed working papers on research related to any of these projects to contact the leader of the related research team and forward a copy of the working paper (See team leader email addresses above).

### **Standing Advisory Group—February Meeting.**

The agenda for the February meeting of the PCAOB Standing Advisory Group includes:

- [The auditor's use of specialists in performing an audit](#)
- [Risk assessment and the auditor's consideration of materiality in planning an audit](#)
- [Possible effects of the inclusion of litigation-related clauses in audit engagement letters.](#)

As with all meetings of the Standing Advisory Group, the [agenda and briefing papers](#) for this meeting, as well as the meeting webcast, can be found under Standards on the PCAOB Web site at [www.pcaobus.org](http://www.pcaobus.org).

### **PCAOB Report on Initial Implementation of AS No. 2 concerning Audits of Internal Control over Financial Reporting.**

On November 30, 2005, the PCAOB issued a report discussing issues identified in the course of the Board's monitoring of the implementation of Auditing Standard No. 2, *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* ("AS 2"). The Board's monitoring was based largely, but not exclusively, on information from PCAOB inspections and focused on whether registered firm's audit methodologies and the execution of those methodologies resulted in audits of internal control that are effective and efficient. Researchers, educators, students, auditors, and others should find [this report](#) highly informative and useful.

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

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

\*\*Douglas Carmichael is PCAOB Chief Auditor and Director of Professional Standards through January 2006. He is succeeded by Tom Ray, previously Deputy Chief Auditor.

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

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# THE AUDITOR'S REPORT

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## Have You Seen...?

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

**"Is There a Link Between Executive Equity Incentives and Accounting Fraud?,"** by M. Erickson, M. Hanlon and E.L. Maydew. *Journal of Accounting Research* (Article in Press).

The authors use several measurements of equity incentives and compare the incentives of firms accused of committing fraud by the Securities and Exchange Commission from 1996-2003 to two samples of firms not accused of fraud. Using numerous empirical tests, they find results that are in contrast to policy makers' assertion that executive equity incentives are linked to fraud.

**"Accelerating the Acquisition of Knowledge Structure to Improve Performance in Internal Control Reviews,"** by A. Faye Borthick, M. B. Curtis and R. S. Sriram. *Accounting, Organizations and Society* (Article in Press).

This study uses students enrolled in a senior-level accounting information systems course to show that knowledge structure training is effective in imparting transaction flow and control objective knowledge structures. In addition, the authors document that knowledge structure mediates the relationship between structure training and performance in internal control reviews.

**"Accountability and Auditors' Materiality Judgments: The Effects of Differential Pressure Strength on Conservatism, Variability, and Effort,"** by T. DeZoort, P. Harrison and M. Taylor. *Accounting, Organizations and Society* (Article in Press).

This study uses one hundred sixty auditors to investigate whether incremental levels of accountability increase judgment conservatism and decrease judgment variability in two materiality tasks. Auditors under higher levels of accountability pressure provided more conservative materiality judgments and had less judgment variability than auditors under lower levels of pressure. The study also demonstrates that a decision aid can increase conservatism and reduce variability in auditors' materiality judgments.

**"Corporate Governance Reforms: Redefined Expectations of Audit Committee**



**Responsibilities and Effectiveness,"** by S. C. Vera-Muñoz. *Journal of Business Ethics* (Volume 62, Issue 2, 2005): 115-127.

This paper discusses the new expectations of audit committee responsibilities and effectiveness in the wake of corporate governance reforms and provides some directions for future research. The author argues that recent regulatory changes have redefined and re-emphasized the roles and responsibilities of all the participants in a public company's financial reporting process. Most notably, these reforms have intensified scrutiny of corporate audit committees.

**"Auditor Calibration in the Review Process,"** by N. Harding, S. Hughes and K. T. Trotman. *Advances in Accounting Behavioral Research* (Volume 8, 2005): 41-57.

This study investigates the efficiency and effectiveness of a recent change in audit workpaper review toward delegating more review tasks to senior auditors and including more staff auditors in the review process. The study considers the calibration of reviewers of different experience levels on both conceptual and mechanical errors. The results reveal that reviewers are miscalibrated (overconfident) in their workpaper error judgments. No differences are found in the calibration of staff and senior auditors across hierarchical level or type of error.

**"Audit Committees, Boards, and the Quality of Reported Earnings,"** by N. Vafeas *Contemporary Accounting Research* (Volume 22, 2005): 1093-

This study uses data between 1994 and 2000 to investigate how the quality of earnings is related to audit committees and boards of directors. Using logistic regressions, the author finds evidence that these relationships are consistent with the predictions of agency theory. This study contributes to this body of literature by using different earnings quality measures from prior studies, and by expanding the range of audit committee attributes deemed important in determining audit committee performance.

**"The Different Types of Assurance Services and Levels of Assurance Provided,"** by M. Hasan, S. Maijoor, T.J. Mock, P. Roebuck, R. Simnett and A. Vanstraelen. *International Journal of Auditing* (Volume 9, 2005): 91-102

This paper compares differences in types and levels of assurance services between the former Big Five audit firms to smaller audit firms. Factors affecting the level of assurance for moderate assurance service engagements were identified and differences between the Big Five and other audit firms are reported.

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## "Have You Seen These Instructional Resources?"

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

Jay C. Thibodeau, Chair - Bentley College

Michael Akers - Marquette

Greg Jenkins - Virginia Tech

Richard Riley - West Virginia

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

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## 2006 ISAR Conference

**Sydney Australia  
June 22-23, 2006**

The **International Symposium on Audit Research (ISAR)** was formed in 1995 from a merger of two previous audit research symposia: the USC Audit Judgment Symposium and the Maastricht Audit Research Symposium. ISAR is now co-sponsored by four universities: University of Southern California (USA), Universiteit Maastricht (Netherlands), Nanyang Technological University (Singapore), and the University of New South Wales (Australia). The Symposium is held annually and is organised by each University in turn. The host of ISAR 2006 is the Centre for Accounting and Assurance Services Research at the School of Accounting at the University of New South Wales. The Symposium will be held on 22-23 June at the Crowne Plaza Hotel, Coogee Beach, Sydney, Australia.

A reminder that paper submission for the 2006 ISAR Conference has now closed. Registration and Accommodation forms will be available from mid-February at <http://www.isarhq.org/>.

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AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Call for Submissions

### Thirteenth Annual Midyear Auditing Section Conference

The Thirteenth Annual Midyear Auditing Section Conference will be held **January 11–13, 2007** at the historic Francis Marion Hotel in Charleston, South Carolina ([www.francismarioncharleston.com](http://www.francismarioncharleston.com)).

CPE sessions will be held on the afternoon of January 11. The remainder of the 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 (including instructional cases), and special session proposals. In addition, the section will rely on your help in planning and conducting the conference and in providing suggestions for session topics, panels, and/or workshops. Please consider volunteering to participate as a reviewer, discussant, and/or moderator by contacting either of the co-chairs, Professors Karla Johnstone and Terry Neal.

### SUBMISSION GUIDELINES

Research papers should follow the style and submission guidelines of *Auditing: A Journal of Practice & Theory*, including the requirement to submit separate electronic files containing the cover page and the paper itself<sup>1</sup>. Instructional cases should be in a format similar to that used in *Issues in Accounting Education*. Submissions are not eligible for consideration if they: 1) have been published or accepted for publication, 2) were presented at the 2006 AAA Annual Meeting, or 3) were presented at more than one AAA regional meeting or other academic conference. Papers presented at the Research Forum of the AAA Annual Meeting are eligible for consideration. It should be noted that papers accepted for presentation at the 2007 Midyear Auditing Section Conference may also be submitted for presentation at the AAA Annual Meeting scheduled for August 2007.

### SUBMISSION DEADLINE

Submission should be made [by e-mail only](#) to either:

Professor Karla Johnstone  
University of Wisconsin – Madison

OR Professor Terry Neal  
University of Tennessee

AT  
[AMC2007@bus.wisc.edu](mailto:AMC2007@bus.wisc.edu)

Submissions must be received by September 1, 2006, to be considered for the program. Early submission is highly encouraged. Any questions should be addressed to Karla Johnstone or Terry Neal via the above email.

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<sup>1</sup>Also, please be sure to remove all identification of the authors, including changing the "Properties" menu to "anonymous".

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Call for Papers

**2006 ABO Research Conference  
Portland, OR  
October 6-7, 2006**

The 2006 ABO conference will be held October 6-7, 2006 in downtown Portland, Oregon at the historic Multnomah Hotel. We are excited to announce several new features of the conference: a PhD Consortium, Emerging Scholar Sessions, and a format change.

**PhD Consortium:** Friday morning will feature a Consortium for PhD students interested in doing behavioral work. Bryan Church will lead the session which will include presentations and discussions with leading behavioral researchers on topics such as managing an academic career and generating and publishing good behavioral research. PhD students will pay no registration fee for the PhD Consortium or the Research Conference. Details will be sent to program directors.

**Emerging scholars submission:** This year we are pleased to include an Emerging Scholars session at the conference. This session will showcase the work of new scholars while providing them with detailed constructive feedback on their papers through the assignment of more senior discussants. Faculty who have graduated within the past three years and doctoral students are encouraged to submit their work to this session. Please include a note with your submission to indicate "emerging scholars" submission. Submissions to the Emerging Scholars session will also be considered for inclusion in regular conference research sessions.

**Format change:** To encourage high quality discussion and interaction during sessions, we will use a new format this year. Two papers will be presented in each concurrent session with a discussant for each. Papers will be available online prior to the conference as well. We hope participants and presenters will enjoy the more in-depth discussions that are made possible by a more informed audience.

**Submission procedures:** All submissions should be made electronically. Email submissions to Anne Magro ([amagro@ou.edu](mailto:amagro@ou.edu)). The manuscript should be submitted in .pdf format with all author identification removed from the document; for field surveys or experiments, please submit an instrument. Please include author(s) and institution affiliation(s) in the email.

The deadline for submission is Friday, **June 30, 2006**. Submitted papers should not have been



accepted for publication at the time of the submission. Papers should follow the style guidelines for American Accounting Association publications. The submission fee is \$25.00 (no fee for doctoral students). Please contact Anne Magro for information about submitting your fee. Selection of conference papers will be announced by August 20, 2006 and papers will be available on the ABO website by September 1.

Watch the AAA website for further details on the conference, including registration information.

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Call for Nominations

### Nominees for Election as Section Officers

The members of the Auditing Section will elect two officers in Fall 2006, the **Vice President–Academic (President-Elect)** and **Treasurer**. Those elected will begin serving their terms in August 2007. Please submit names of individuals you would like to nominate for these positions no later than **July 1, 2006**. 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, 2006**.

Please submit nominations and/or petitions to Mark Beasley, Chairperson, Nominations Committee, by email no later than July 1, 2006:

Mark Beasley  
North Carolina State University  
College of Management  
Department of Accounting  
Box 8113  
Raleigh, NC 27695-8113  
Phone: (919) 515-6064  
Fax: (919) 515-4446  
Email: [mark\\_beasley@ncsu.edu](mailto:mark_beasley@ncsu.edu)

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Auditing Section Awards

### 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 single 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, that work must have been published during the ten-year period ended December 31, 2005, 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 2007 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 (1) a nomination letter stating why the work is deserving of special recognition and (2) the submitted work.

Submissions should be sent via email by **July 1, 2006** to:

Ray Whittington  
School of Accountancy  
DePaul University  
1 East Jackson Blvd  
Chicago, IL 60604-2287  
Phone: (312) 362-6625  
Fax: (312) 362-6208  
Email: [rwhittin@depaul.edu](mailto:rwhittin@depaul.edu)

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### Call for Nominations 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 Award Selection 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, 2004 and December 31, 2005 (dissertations can be nominated more than once).
- 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 via email by **July 1, 2006** to:

Ray Whittington  
School of Accountancy  
DePaul University  
1 East Jackson Blvd  
Chicago, IL 60604-2287  
Phone: (312) 362-6625  
Fax: (312) 362-6208  
Email: [rwhittin@depaul.edu](mailto:rwhittin@depaul.edu)

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## 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 2007. 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, 2006** to:

Mark Beasley  
North Carolina State University  
College of Management  
Department of Accounting  
Box 8113  
Raleigh, NC 27695-8113  
Phone: (919) 515-6064  
Fax: (919) 515-4446  
Email: [mark\\_beasley@ncsu.edu](mailto:mark_beasley@ncsu.edu)

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## Call for Nominations 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 2007. 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., Bill Felix, Tim Bell, 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 via email by **July 1, 2006** to:

Scott Showalter  
KPMG LLP  
280 Park Avenue  
New York, NY 10017  
Phone: (212) 909-5905  
Email: [dsshowalter@kpmg.com](mailto:dsshowalter@kpmg.com)

## Call for Nominations 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 2007. This award is given annually and recognizes outstanding contributions to the field of auditing education. Prior recipients of this award include Jane Mutchler, Steve Albrecht, Dan Simunic, Ted Mock, Andy Bailey, Ira Solomon, William Kinney, William Felix, Nick Dopuch, and Barry Cushing.

Nominations should be sent via email by **July 1, 2006** to:

Mark Beasley  
North Carolina State University  
College of Management  
Department of Accounting  
Box 8113  
Raleigh, NC 27695-8113  
Phone: (919) 515-6064  
Fax: (919) 515-4446  
Email: [mark\\_beasley@ncsu.edu](mailto:mark_beasley@ncsu.edu)

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## *Contemporary Accounting Research Conference 2006*

The Canadian Academic Accounting Association announces the

**21st CAR Conference**  
**Toronto, Ontario — November 3 – 4, 2006**  
**(plus Doctoral Consortium on November 2nd)**

**Building a Better Understanding of Accounting:  
Celebrating Diversity in Accounting Research**

The *CAR* editorial team 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). We hope to have a set of accounting papers that encompass the major topic areas and methods, which demonstrate the synergy that can be achieved by understanding what other perspectives have to offer, either methodologically or substantively.

Submissions to the conference also constitute submissions to *CAR*. Therefore, submissions should follow *CAR*'s editorial guidelines. Manuscripts should be submitted electronically using *CAR*'s new online submission and peer review system at: <https://www.editorialmanager.com/car/>. In addition to submitting online, authors are required to mail **one hard copy** of the manuscript to the editorial office (address below) with the appropriate submission fee. The **submission fees** are as follows: \$115 for CAAA members and *CAR* subscribers, and \$185 for nonmembers / nonsubscribers (dollar amounts are in Canadian funds in Canada and in US funds elsewhere). Cheques should be made payable to The Canadian Academic Accounting Association (CAAA) and mailed to the address below. Submission fee payments are accepted also by VISA or MasterCard. To authorize a credit card payment, provide the credit card information (cardholder name, number, and expiry date) in a letter and mail it to the address below, or email to: [submissionfees@caaa.ca](mailto:submissionfees@caaa.ca). Submission fees are nonrefundable. **Both hard and electronic copies must arrive at the *CAR* office no later than April 21, 2006.**

Papers not accepted for the conference (and submissions that come in after the deadline) will be treated the same as non-conference 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 August 14, 2006 and of the outcome of the editorial process for publication in *CAR* in the normal course.

Submissions should be directed to:

Professor Gordon Richardson, Editor  
*Contemporary Accounting Research*  
Joseph Rotman School of Management  
University of Toronto  
105 St. George St.  
Toronto, Ontario  
M5S 3E6 Canada  
Phone: 416-946-8601  
Fax: 416-971-3048  
Email: [car@caaa.ca](mailto:car@caaa.ca)

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# THE AUDITOR'S REPORT

AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## Call for Papers

### 11th Annual Ethics Research Symposium

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

The Professionalism and Ethics Committee of the American Accounting Association invites faculty and doctoral students to submit papers for presentation at the 11th Annual Ethics Research Symposium to be held on August 5-6, 2006 in Washington, D.C. The one-day (from 12 noon on August 5 to 12 noon on August 6) Symposium will focus on all aspects of ethics research and teaching within the field of accounting.

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

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

- Accounting ethics vis-à-vis professional ethics
- Historical perspective on issues relating to accounting ethics
- Accountancy as an ethical profession
- Accounting ethics literature reviews
- Accounting ethics education approaches and methodologies, what works and what doesn't and why?
- Empirical studies relating to accounting ethics

- Application of philosophy and/or theology to accounting ethics
- Application of sociology, psychology, and/or cultural anthropology to accounting ethics and/or professionalism
- Conceptual papers analyzing what is necessary to advance accounting ethics education and/or accounting ethics research to the prominence enjoyed by mainstream teaching and research.

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

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

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

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

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

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

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

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# CALL FOR VOLUNTEERS FOR THE THIRTEENTH ANNUAL MIDYEAR AUDITING SECTION CONFERENCE

The Thirteenth Annual Midyear Auditing Section Conference will be held **January 11-13, 2007** at the historic Francis Marion Hotel in Charleston, South Carolina ([www.francismarioncharleston.com](http://www.francismarioncharleston.com)).

The Section needs your help in planning and conducting the 2007 Conference. If you would like to volunteer your assistance in one or more of the following areas, please e-mail the completed form to conference Co-Chairs, Karla Johnstone and Terry Neal, at [AMC2007@bus.wisc.edu](mailto:AMC2007@bus.wisc.edu).

Name \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_ E-mail \_\_\_\_\_

**Reviewer:** If you are willing to assist by reviewing one to two 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 your ideas for special CPE topics, panels, workshops, etc. If you know particular individual(s) who may be interested in the area(s) you recommend, please list their names. Use the back of this page for additional comments.

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# THE AUDITOR'S REPORT

Volume 29, No. 2  
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AUDITING SECTION / AMERICAN ACCOUNTING ASSOCIATION

## 2006 Distinguished Service in Auditing Award

Presented by Scott Showalter

The 2006 Distinguished Service in Auditing Award was presented to Eller Professor in Accounting, William "Bill" L. Felix. This award recognizes exemplary service to the auditing profession, the Auditing Section and 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 field of auditing, as evidenced by service to the auditing profession, the Section, or by significant contributions in scholarship. This year's recipient continues a long tradition of recognizing an individual who has made significant contributions in all three arenas.



Scott Showalter (left) presents Bill Felix (right) with the 2006 Distinguished Service in Auditing Award.

Professor Felix has served the American Accounting Association (AAA) and the Auditing Section in a number of ways, most notably as the President-elect, President and Past-President of AAA. Bill also served as the President of the Auditing Section. Over the years he has served on numerous AAA and Section committees including chairing the Auditing Standards Committee, Professional Practice

Quality Committee, Subcommittee on Emerging Issues, Research Committee, and the Committee to nominate notable contributions to accounting literature.

He has served the profession as well. In fact, he began his career in public accounting joining Price Waterhouse in 1962 after attaining his Bachelor degree. He served on the AICPA Committee on Statistical Sampling and the Practice Analysis Task Force. Professor Felix also served the Washington Society of CPA's on the Committee on Auditing Standards and as a Director and Vice President. Bill was also a member of the American Statistical Association Committee on Statistics in Accounting. In addition, he served the Arizona Society of CPA's Education Foundation as its Secretary-Treasurer and President. Professor Felix is a Certified Public Accountant in Arizona and Montana.

Professor Felix contributions to scholarship in auditing include his research on statistical sampling and audit evidence. He has published in a variety of academic research journals, including *Auditing: A Journal of Practice & Theory*, *The Accounting Review*, the *Journal of Accounting Research*, *Accounting Horizons*, *Accounting, Organization and Society*. Professor Felix was editor of ***Auditing: A Journal of Practice & Theory*** and served as ad hoc reviewer for ***The Accounting Review***, ***Contemporary Accounting Research***, and ***Journal of Accounting Research***.

Professor Felix's accomplishments have been acknowledged through numerous AAA awards. Selected awards include: Innovation in Accounting Education Award, Outstanding Accounting Educator Award, Outstanding Auditing Educator Award, and Distinguished Visiting Faculty — 1984 Doctoral Consortium. Bill also received the Notable Contribution to Accounting Literature Award from AAA/AICPA.

The members of this year's selection committee were: Scott Showalter (Chair), Al Arens, Doug Prawitt, and Bob Roussey.

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# THE AUDITOR'S REPORT

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## 2006 Auditing Section Outstanding Educator Award

Presented by Linda McDaniel



Jane Mutchler (left) receives the  
2006 Auditing Section Outstanding Educator Award  
presented by Linda McDaniel (right).

I have the pleasure of announcing the 2006 winner of the Auditing Section's Outstanding Educator Award. As stated in the Section's Operating Manual, this award is given for "exemplary contributions in research or teaching over a sustained period of time (10 to 15 years)." This year, the set of nominees for this award comprised a number of very highly distinguished individuals. It was truly a difficult task to choose one from among them. I want to acknowledge and thank the committee (Tim Bell, Bill Dilla, and Chris Hogan) for their considerable efforts in making this choice.

The winner of the 2006 Outstanding Educator Award is Jane Mutchler. Jane is presently serving as the Associate Dean of the School of Business at Georgia State University. In auditing research, Jane is clearly associated as a pioneer in the area of going concern reports. As one committee member noted, there is not a paper in the area that does not cite Jane's work. As an educator, Jane's

contributions are significant and they include but extend beyond the institutions where she has served. Notably, she received the distinction of being only one of five academics listed in Business Finance's Most Influential listing in 2004. She was again named in 2005. In both cases, Jane was but a handful of women recognized for influencing accounting.

In selecting Jane, the committee was impressed with the way in which her research has influenced her teaching, and her teaching has spread outside the boundaries of the University to the community as a whole. Jane is truly deserving of this award that has another honor attached – Jane is the first female to receive this award from the Auditing Section.

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## 2006 Innovation in Auditing and Assurance Education Award

Presented by Ganesh Krishnamoorthy



Cindy Durtschi (left) receives the  
2006 Innovation in Auditing and Assurance Education Award  
presented by Ganesh Krishnamoorthy (right).

The purpose of the Innovation in Auditing and Assurance Education Award is to encourage innovation and improvement in auditing and assurance education. The award recognizes 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. The 2006 Award was presented to Cindy Durtschi of Utah State University for her case, "The Tallahassee BeanCounters: A Problem-Based Learning Case in Forensic Auditing." This case was published in *Issues in Accounting Education* in May 2003.

The Tallahassee BeanCounters case is extremely innovative in that it requires students to work in teams to uncover fraud by first analyzing baseline information and then by requesting and analyzing

additional information from the instructor, who represents all of the individuals in the case. The iterative nature of the students' search for and evaluation of information makes this case reflective of real-world investigations. In addition, the case promotes critical thinking and interaction between faculty and students.

Student reaction to the case has been very positive, with the case even being described as "awesome." The case has been used in various auditing-related courses at a range of universities. In addition, the National Association of Certified Valuation Analysts and CCH have adapted the case for use.

The selection committee for this year's award consisted of Tina Carpenter, Dana Hermanson, Ganesh Krishnamoorthy, and Dave Ricchiute.

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# THE AUDITOR'S REPORT

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## 2006 Outstanding Auditing Dissertation Award

Presented by Steve Glover



Dr. Tina D. Carpenter (left) receives the 2006 Outstanding Auditing Dissertation Award presented by Steve Glover (right).

The 2006 Outstanding Auditing Dissertation Award was presented to Dr. Tina D. Carpenter, Assistant Professor at the University of Georgia. Professor Jane L. Reimers (Florida State University) was recognized as the dissertation chair. Dr. Carpenter's dissertation is entitled, "Partner Influence, Team

Brainstorming, and Fraud Risk Assessment: Some Implications of SAS No. 99." The research questions in the dissertation relate to SAS No. 99 and the assessment of the fraud risk. Auditing standards now require audit teams to brainstorm, discuss, and plan procedures around potential fraud risks for each audit. However, the usefulness of brainstorming sessions has not been established. According to standard setters, the effectiveness of these brainstorming sessions will depend on the tone set by audit partners. Dr. Carpenter's dissertation evaluates the effects of partner's influence on team brainstorming sessions and the resulting fraud judgments. The research brings together several streams of research including: group decision making, brainstorming, fraud risk assessments, and accountability. Dr. Carpenter is able to use the applicable theory and prior research to predict how auditors would react to brainstorming and to the partner's influence when making risk assessments. She used groups of three practicing auditors—a manager, a senior, and a staff—for her experiment. Her results show that when the partner is concerned about efficiency, brainstorming sessions result in a loss of quality fraud ideas that were generated by individual auditors prior to the brainstorming session. In contrast, when the partner is concerned about effectiveness, brainstorming sessions resulted in new quality fraud ideas that were not generated by the respective individual auditors.

The committee believes this research has a strong potential for publication in a top scholarly journal, it makes an important and timely contribution to the audit literature, it brings together and extends several streams of research, and it addresses a research question standard setters and practitioners are interested in. The SEC and all the participating firms have asked for a copy of Dr. Carpenter's dissertation and she also visited the firms to explain her results.

Many high quality dissertations were nominated for the 2006 award. The section solicits nominations from the membership by July 1 of each year and the award is presented at the following Midyear Conference.

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# THE AUDITOR'S REPORT

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## 2006 Notable Contributions to the Auditing Literature Award

Presented by Rick Tubbs



Mark DeFond (left) and K. R. Subramanyam (right), recipients of the 2006 Notable Contributions to the Auditing Literature Award.

The Notable Contributions to the Auditing Literature Award recognizes research works of exceptional merit, published during the last ten years, which make a significant contribution to auditing or assurance education, practice, or research.

The 2006 award-winning research work is "The Effects of Audit Quality on Earnings Management" by Connie Becker, Mark DeFond, Jim Jiambalvo, and K. R. Subramanyam which was published in the Spring 1998 issue of *Contemporary Accounting Research*. This study demonstrates that as a client's audit firm quality (non-Big 6 vs. Big 6) increases, the client's earning management (discretionary accruals) decreases. This finding has had a large impact on both auditing and financial accounting archival research.

The 2006 Notable Contributions to the Auditing Literature Award Selection Committee was composed of Joe Carcello, Zoe-Vonna Palmrose, Ken Trotman, and Rick Tubbs (Chair).

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