



THE  
AUDITOR'S  
REPORT

Volume 24, No. 3, Summer 2001

AUDITING SECTION/AMERICAN ACCOUNTING ASSOCIATION

REPORT OF THE PRESIDENT

Summer is with us and that means most of us are finishing up the academic year, writing up our annual activity reports and getting ready for a month or so of research or other non-classroom activities. Similarly, my summer report will be the last one I will be writing as the Section's President, and it seems appropriate to review some of the Section's activities over the past year. I will also mention a few of the interesting auditing activities at the AAA Annual meeting and give a few reminders of important inputs that the Section needs from you.

**The Past Year**

In reviewing the past year, it is difficult for a Section President to not be extremely grateful for the hard work of so many people who contribute to the success of the Auditing Section. This report would be way too long if I mentioned every deserving person. However, I do want to acknowledge a few people who made huge contributions to our Section. First, **Linda McDaniel** and her Midyear Conference Planning Committee did an outstanding job. I think we all agree that the Houston meeting was the best ever. Second, our journal, *AUDITING: A Journal of Practice & Theory*, has been in the capable hands of **Arnie Wright**, editor, and his associate editors, **Jane Mutchler** and **Ken Trotman**. I know we all agree our journal has continued to contribute to auditing knowledge and grow in stature. Third, **Rick Tubbs** organized our second doctoral consortium and it was a great success. Fourth, I would like to thank **Mark Taylor** for serving as editor of *The Auditor's Report*. Finally, I want to thank all of the **Committee Chairpersons** and **Members** for the hours of thought and work that you contributed to help make the Auditing Section so successful.

As I mentioned in my last report, one of the priorities of my presidency was to survey auditing/assurance



Stanley F. Biggs

services courses to find out what changes are taking place in our courses. The task of conducting this survey was given to the Education Committee chaired by **Eric Johnson**. The committee completed a survey of over 300 syllabi and presented preliminary results at the Midyear Meeting Forum in Houston. They now have finalized all of the results and expect to have a draft of a paper by the time this report is published. The Committee's paper will be posted on the Section's web site as soon as it is ready.

Over the past year we also surveyed current and past committee chairpersons to evaluate the Section's committees.

Based on this survey, the Executive Committee made a

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**FALL 2001 ISSUE DEADLINE**

The deadline for material to be included in the Fall 2001 issue of *The Auditor's Report* is September 1, 2001. The preferred, but not mandatory, format is Word files attached to email messages. Please send all material to the Editor at the address below by the deadline to ensure timely publication of the issue:

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

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## President's Report

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number of changes in the committee structure that we believe will both streamline and strengthen the work of committees. In another bit of "clean-up" work, the Executive Committee revised the Section's Operating Manual to better reflect current operating policies and procedures. This activity was initiated and guided by our Historian, **Jack Robertson**.

### 2001 Annual Meeting

There are a number of interesting auditing activities at the Annual Meeting in Atlanta. I know we all look forward to the Auditing Section Luncheon, which will be held on Monday, August 13, 2001. Our speaker will be **Connie D. McDaniel**, who is Vice President and Controller of Coca-Cola Company. Connie has had a very diverse career with Coca-Cola, including several assignments in the company's overseas operations. In her speech, Connie plans to discuss how information technology is affecting accounting and auditing at Coca-Cola. In particular she will talk about controls, security issues, and about the skill sets and expertise they need to deal with technology. It should be a very interesting and thought-provoking speech.

**Robin Roberts** has chaired the Annual Meeting program committee. Robin received 72 papers and has put together an excellent program of nine auditing paper sessions and two panel sessions. The Institute of Internal Auditors will present one panel session on e-Commerce. In the other panel session, four panelists will discuss "Auditing and the Quality of Earnings." This panel session was put together by the Auditing Section's Practice Advisory Council and **Mark DeFond** and includes an all-star group of panelists: **Greg Jonas**, Partner, Andersen LLP; **Katherine Schipper**, Duke University and incoming FASB member; **Walter Schuetze**, former SEC Chief Accountant and FASB member; and **Zoe-Vonna Palmrose**, University of Southern California. The Annual Meeting promises to be a thought-provoking experience for auditing teachers and researchers.

### Some Important Reminders

The Winter issue of *The Auditor's Report*, included a number calls for nominations. We will be giving a number

of awards (Distinguished Service Award, Outstanding Educator Award, Notable Contribution to the Auditing Literature Award, and Outstanding Dissertation Award). It is very important that the selection committees for these awards receive nominations from the members of the Section. Please review the calls in the Winter issue of the *Auditor's Report* and send nominations to the committee chairs. The nominations will close on July 1, 2001.

This fall, we will elect several new people to serve on the Auditing Section Executive Committee. This year we will elect a new Vice President–Academic (President-Elect) and new Treasurer. Please think about who you believe would do a good job in these positions and send me your nominations. This year we will conduct our vote for officers electronically via a ballot that will be posted on the Section's web page. Please watch for an announcement of the election that will come early in the fall. The nominations for officers will close on July 1, 2001.

### A Final Word

I would like to close by thanking all of the members for entrusting me with the opportunity to serve as the Section's President. It has been an honor that I will always cherish and it has been a privilege to work with so many talented and dedicated people. I would especially like to thank the members of this year's Executive Committee: **Karen Pincus** (Past President), **Mark Beasley** (Treasurer), **Audrey Gramling** (Secretary), **Abe Akresh** (Vice President–Practice), **Mike Bamber** (Vice President–Academic), and **Jack Robertson** (Historian). Their hard work and cooperation made my term as President much easier. We all owe Karen, Mark and Jack a special thanks as they leave the Executive Committee having served with distinction over the past few years. I also want to wish success to next year's President, **Mike Bamber**, and to welcome three new officers to the next year's Executive Committee, **Joe Carcello** (Vice President–Academic), **Rick Tubbs** (Treasurer), and **Andy Bailey** (Historian).

Stanley F. Biggs  
University of Connecticut

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# Internal Audit Standards: A New Challenge

Larry E. Rittenberg  
University of Wisconsin–Madison  
April 2001

Internal auditing has developed into a dynamic and changing profession that anyone who hasn't looked at recently will not recognize. The practice of internal auditing is global and the amount of internal auditing performed is more than twice that of external auditing. In other words, it is too big for us to ignore. Moreover, the issues facing the profession are interesting and challenging. For example, the Institute of Internal Auditors (IIA) is in the process of developing standards that address both assurance and consulting activities. They are developing guidance for internal auditors to contribute to an organization's governance, risk management, and control processes. It is a challenge in which the IIA could use your research skills and your active involvement.

The Institute of Internal Auditors has over 72,000 members practicing in virtually every country in the world. Thus, the *Standards for the Professional Practice of Internal Auditing (Standards)* must not only meet the needs of members and organizations in North America, but the needs of members and organizations around the world, including those in countries where laws mandate that IIA standards must be followed (e.g., Israel, some African countries). The *Standards* must be broad enough to encompass differing cultural and ethical values. They are applicable for those who practice internal auditing within an organization as well as those that provide outsourced internal audit services to organizations. Many of the Big 5, for example, endorse and promote the *Standards for the Professional Practice of Internal Auditing* as a basis for their internal audit work. Indeed, establishing standards for the practice of internal auditing is a unique challenge—and one that could benefit from input by the research community.

## Enhanced Definition of Internal Auditing

In December 1999, the IIA adopted an updated definition of internal auditing as follows:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes* (emphasis added).

The new definition of internal auditing is broad and enabling, suggesting a profession marked by broad business and technical skill coupled with a strong commitment to objectivity. It envisions internal auditors with a focus of adding value by facilitating change through advice and counsel, and in some cases, providing assurance to parties outside of the organization (for example, trading partners in B2B relationships). While the definition is enabling, it presents challenges for standard setters who must grapple with conflicts between objectivity and consulting services or legal implications of providing assurances that will go outside the organization to outside trading partners. The Internal Auditing Standards Board (IASB) is currently dealing with fundamental assurance and reporting issues including what evidence is required to communicate audit findings and whether internal control weaknesses identified in a consulting engagement should be communicated to the audit committee.

The definition also expands the scope of internal auditing to recognize a major role in corporate governance and risk management. Both the Blue Ribbon Commission and the Blue Ribbon Committee on improving audit committee effectiveness recommended strong roles for internal auditing as part of corporate governance. Internal auditing has become an integral part, and in some organizations, the driver, of the risk management process. Risk analysis starts with an understanding of an organization's strategies. Internal auditors assist management in implementing processes for identifying and controlling risk, and contributing to improvement in risk management and control systems. Internal auditing is much more than control: it deals with risks, operational effectiveness, and good governance. Indeed, many of today's internal auditors perform either little or no financial auditing because that area is covered by the external auditor.

## The Professional Practices Framework

The IIA has developed a Professional Practices Framework for providing guidance to its members (see Exhibit 1). The framework helps practitioners to distinguish between guidance that is mandatory (Ethics Code and Standards), guidance that represents suggested or emerging practice (Practice Advisories), and other recommended practices (Development and Practice Aids).

New *Standards* reflecting the change in the internal audit definition were issued in December of 2000. The initial standards focused on attribute and performance issues related to both assurance and consulting. The next set of *Standards* will provide greater guidance in performing assurance and consulting activities. Other *Standards* will address areas of corporate governance, risk, and control. The issues addressed are interesting. For example, what should an internal auditor do when he or she believes that management has accepted an

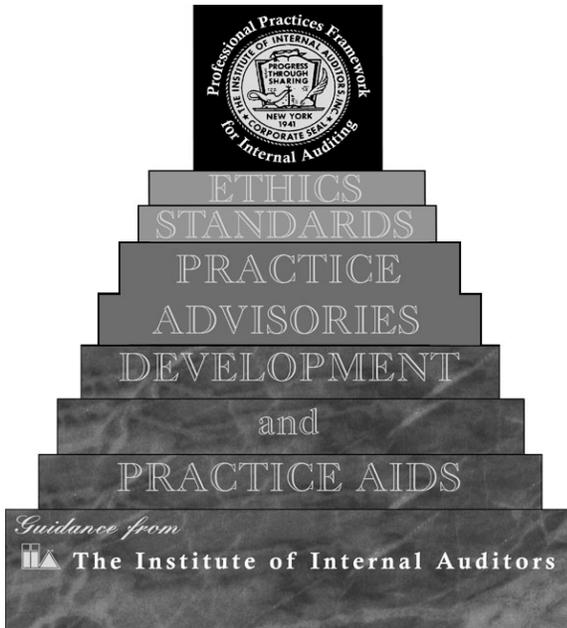
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## Internal Audit Standards: A New Challenge

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### EXHIBIT 1

#### Professional Practices Framework



inappropriate level of risk? Professor Urton Anderson (University of Texas, Austin), a current IASB member, describes the new *Standards* in the following manner:

“Internal auditors now must know the objectives of the organization and the business as well as the processes in place to accomplish those objectives. In other words, they must understand strategy”.<sup>1</sup>

This approach represents a new type of auditing that most students have not been exposed to. Since internal auditing, unlike external auditing, is not mandated, the audit function must add value in every activity performed and must be ready to move beyond analysis to providing consulting services that improve organizational performance. The unique mix of activities, the diversity of practice both within North America as well as around the world, the competition for performing internal audits, and the conceptual richness of issues such as providing assurance to outside third parties—all combine to make internal auditing a rich area for academic research and curriculum development.

Beyond the *Standards*, the Professional Issues Committee of the IIA recently has issued Practice Advisories on information security, assessing the adequacy of an organization’s risk management processes, linking audit plans to risks and exposures, and internal audit responsibility for other nonaudit functions. In addition, there are a number of new advisories under development, including providing assurance services to parties outside the organization and facilitating risk assessment.

### Research Is Needed

The IASB and Professional Issues Committee are strongly influenced by research on internal auditing. Research is needed in traditional areas such as evaluating evidence, identifying fraud risks, or communicating effectively. However, the internal audit perspective is different and the scope of practice is more varied. For example, there are important legal implications that should be considered when an internal auditor, as part of an organization, provides assurances on the quality of information systems and controls to outside organizations (mostly to trading partners). Internal auditors need research on improving risk analysis processes and linking control analysis with risk and strategy.

There are a number of interesting internal audit research topics that AAA members can address, including:

- Determining the nature and sufficiency of internal audit evidence needed for various types of internal audit assurances communicated to audit committees, operating management, or external audit parties.
- Determining what internal audit services best addresses the corporate governance needs of an organization.
- Implementing continuous monitoring software.
- Identifying key risk indicators and building information systems that support ongoing risk identification and decision making.
- Identifying procedures to identify fraud, internal breakdowns, and key risk indicators.
- Maintaining objectivity while performing consulting work.
- Building, auditing, and managing information security.
- Increasing the effectiveness of due diligence work in connection with proposed mergers and acquisitions.
- Evaluating the relative advantage/disadvantage of assurance services provided by the internal audit function vs. the external audit function.
- Identifying the skill sets needed for internal auditors to respond to business changes.
- Identifying and evaluating processes successful internal audit departments utilize to drive change through an organization.
- Measuring the value of internal audit services.
- Measuring the value of corporate codes of conduct. Does the value differ by countries?
- Privacy
- Critical infrastructure risks and security needs.
- Evaluating the effectiveness of internal auditing as an organizational integrative function.
- Improving audit effectiveness: tools and technology

The IIA Research Foundation periodically posts its list of research priorities on its web site and distributes research requests

<sup>1</sup> Christy Chapman, “Raising the Bar,” *The Internal Auditor*, April 2001, p. 56.

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## Internal Audit Standards: A New Challenge

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on a yearly basis. The current priorities can be found at [http://www.theiia.org/ecm/iiaarf.cfm?doc\\_id=249](http://www.theiia.org/ecm/iiaarf.cfm?doc_id=249). Research proposals are reviewed every June and every December. Preference is usually given to research that recognizes the global practice of internal auditing. For more information, you can contact Susan Lione, Senior Manager, Research, at [slione@theiia.org](mailto:slione@theiia.org).

### How Can an AAA Auditing Section Member Get Involved?

There are a number of opportunities available within the IIA for AAA members. Many AAA members currently serve on IIA committees including the Standards Board, the Professional Issues Committee, the Academic Relations Committee, the Board of Research Advisors, and the Research Foundation. AAA members have written research monographs on independence and objectivity, coordinating total audit coverage, data mining, assurance services, and outsourcing. I have had the privilege of serving as Vice-Chair of Professional Practice for the past two years with an emphasis on developing professional guidance. I encourage anyone with an interest in participating to visit the IIA's web site and click on guidance section at [www.theiia.org](http://www.theiia.org). If you would like to read more about the profession and standards, I suggest the following two articles both published in the *Internal Auditor*; "Raising the Bar," (April 2001, pp. 55–59), and "Where We're Going," (October 1999, pp. 26–33).

The IIA Research Foundation is in the process of developing a monograph on "Research Opportunities in Internal Auditing" and is interested in funding more academic research. If you are interested in becoming more active in serving on an IIA international committee, you can contact me by email at [lrittenberg@bus.wisc.edu](mailto:lrittenberg@bus.wisc.edu) or by phone at the University of Wisconsin. The IIA can use your help and you will find it to be both interesting and personally rewarding.

## CALL FOR PAPERS

# THE NINTH ANNUAL AIS RESEARCH SYMPOSIUM

February 21–23, 2002—Scottsdale, AZ

In February 2002, the Ninth Annual AIS Research Symposium will be held in Scottsdale, Arizona. The symposium will feature papers and panels that focus on the link between accounting and information systems research. The symposium is particularly interested in interdisciplinary papers that draw from accounting, psychology, cognitive science, behavioral science, economics, and/or information technology. Submitted papers should be completed manuscripts that are theoretically and empirically sound.

Accepted papers will be published at the authors' prerogative in the *International Journal of Accounting Information Systems*. Submitted papers should adhere to the guidelines of the *journal* and other Pergammon publications. Authors should identify themselves only on the cover page. The second page of the paper should consist of an abstract plus a list of key words describing the main topics of the manuscript. Papers should be double-spaced to facilitate editing. The manuscript plus any supporting documentation (such as survey instruments) should be sent as email attachments to Professor Ken Harmon and Professor Steve Sutton.

Submission Deadline:	October 1, 2001
Notification of Decision:	December 1, 2001
Registration Deadline:	December 15, 2001
Revised Manuscripts Due:	January 15, 2002
Symposium Dates:	February 21–23, 2002

For additional symposium information or to submit papers, contact either:

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**CALL FOR PAPERS**

**EIGHTH ANNUAL  
MIDYEAR AUDITING CONFERENCE**

**Call for Submissions**

The Eighth Annual Midyear Auditing Section Conference will be held in **Orlando, Florida** on **January 17–19, 2002**. CPE sessions will be held on the afternoon of January 17. 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, and special session proposals. The conference will be held at the *Hotel Royal Plaza in the Walt Disney Resort*. The hotel is located in the highly desirable Downtown Disney Resort area. There is complimentary transportation to all Disney World attractions.

**Submission Guidelines**

Research papers should follow the style guidelines of *AUDITING: A Journal of Practice & Theory*. Other submissions should take an appropriate form to permit review of their originality, quality, and usefulness. Submissions are not eligible for consideration if they (1) have been published or accepted for publication, (2) were presented at the 2001 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 2002 Midyear Auditing Section Conference can also be submitted for presentation at the AAA Annual Meeting scheduled for August 2002. Abstracts only will be published in the proceedings' booklet. By December 1, 2001, authors of accepted submissions are expected to provide the designated session discussant with a final printed copy. Instructions for placing accepted papers on the Section's web site will be included in acceptance letters.

**Submission Deadline**

Four copies of submissions must be received by **September 1, 2001**, to be considered for the program. Early submission is highly encouraged. Any questions should be addressed to:

**Jeffrey R. Cohen**  
Carroll School of Management  
Boston College  
Chestnut Hill, MA 02167  
Phone: (617) 552-3165  
Fax: (617) 552-2097  
Email: cohen@bc.edu

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**CALL FOR PARTICIPATION**  
**EIGHTH ANNUAL MIDYEAR**  
**AUDITING SECTION CONFERENCE**

**January 17–19, 2002**  
**Orlando, Florida**

Your help in planning and conducting the Section's 2002 Midyear Conference is needed. If you are willing to volunteer your assistance in one of more of the following areas, please complete this form and mail/fax it to the address/number below.

**I.** Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

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

Phone ( ) \_\_\_\_\_ Fax ( ) \_\_\_\_\_ Email \_\_\_\_\_

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

Research Areas \_\_\_\_\_

Research Methods \_\_\_\_\_

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

Session Chair \_\_\_\_\_

Discussant \_\_\_\_\_

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

\_\_\_\_\_

\_\_\_\_\_

The Steering Committee very much appreciates your input. Mail or fax this form to:

Jeffrey R. Cohen  
Carroll School of Management  
Boston College  
140 Commonwealth Avenue  
Chestnut Hill, MA 02167

**Phone:** (617) 552-3165

**Fax:** (617) 552-2097

**Email:** cohen@bc.edu

## HAVE YOU SEEN...?

Troy Hyatt, Seattle University, and Brad Reed, Southern Illinois University Edwardsville

**“The Impact of Commitment and Moral Reasoning on Auditors’ Responses to Social Influence Pressure,”** by A. T. Lord and F. T. DeZoort, *Accounting, Organizations and Society*, (Vol. 26, No. 3, 2001): 215–235.

This paper reports the results of an experiment designed to examine the effect of social influence pressures on auditors’ decisions to sign off on materially misstated financial statements. Two types of social influence pressure are studied: obedience pressure (inappropriate influence from superiors within the firm) and conformity pressure (inappropriate influence from peers within the firm). The study also investigates the effects of organizational commitment, professional commitment, and moral development on the auditors’ decisions. Hypotheses are tested using data from 171 staff auditors from one international CPA firm who participated in a between-subjects experiment. Results indicate that obedience pressure significantly affected auditors’ willingness to sign off an account balance that was materially misstated. In contrast, conformity pressure did not affect the auditors’ decisions. In addition, when no social influence pressure was present, auditors with high organizational commitment were less willing to sign off on the materially misstated account balance. However, in the presence of either obedience pressure or conformity pressure, the level of organizational commitment did not affect the auditors’ decisions. Results for professional commitment were similar to those for organizational commitment. Finally, results suggest that the auditors’ level of moral development did not affect their decisions in any setting.

**“An Analysis of Fuzzy Clustering and a Hybrid Model for the Auditor’s Going-Concern Assessment,”** by M. J. Lenard, P. Alam, and D. Booth, *Decision Sciences*, (Vol. 31, No. 4, 2000): 861–884.

This paper provides a description and testing of two models that can be used to support the auditor’s going-concern decision that must be made in connection with every engagement. The first model is based on fuzzy logic and the second is a hybrid model that combines the use of a statistical model with an expert system. The authors draw on prior research and the help of four partners from three of the Big 5 firms to develop their models and the expert system. Sample firms used in their analysis were randomly selected from the 1989 and 1990 population of manufacturing and retail firms on Compustat. The 1989 sample is used as a training sample, while the 1990 sample is used to test the models and compare their effectiveness. Results indicate that both models are quite successful at predicting bankruptcy, with the fuzzy clustering model achieving an overall accuracy rate of 96% (92% of the bankrupt firms and 100% of the nonbankrupt firms) and the hybrid model achieving an overall accuracy rate of 98% (96% of the bankrupt firms and 100% of the nonbankrupt firms).

**“The Incidence and Detection of Misstatements: A Review and Integration of Archival Research,”** by A. Eilifsen and W. F. Messier, Jr., *Journal of Accounting Literature*, (Vol. 19, 2000): 1–43.

The auditor’s responsibility is to obtain reasonable assurance that the client’s financial statements are free of material misstatements. As a result, the authors state that accumulating information about the incidence and detection of misstatements should help auditors to improve the effectiveness and efficiency of their audits. The purpose of this paper is to provide a review and synthesis of archival studies that have examined the incidence of misstatements and their detection by auditors and to identify potential areas for future research. Among other analyses, the authors summarize the findings of prior research on the distribution of misstatements by audit area, the auditors’ assessments of misstatement causes, and the initial events that identified the misstatements. Discussant comments by R. W. Kreutzfeldt and W. A. Wallace that follow the paper provide many additional insights and suggestions for future research.

**“Research on the Nature, Characteristics, and Causes of Accounting Errors: The Need for a Multi-method Approach,”** by P. Caster, D. W. Massey, and A. M. Wright, *Journal of Accounting Literature*, (Vol. 19, 2000): 60–92.

This paper presents a model of the error generation and detection processes and then reviews the prior literature within the context of the model. The authors’ review is organized around the following elements in the model: materiality, audit risk, inherent risk, control risk, business risk, audit program development (nature, extent, and timing of tests and staffing issues), sampling risk, and nonsampling risk. In addition, the review summarizes prior work that examined the following factors which also affect error detection: auditing and firm standards; decision tools and aids; auditor knowledge, experience, motivation, ability, ethics, and decision heuristics; accountability and justification; time budgets; litigation risk; reliability of evidence; and audit costs. The paper also includes many suggestions for future research. Following the paper are discussant comments by W. Kinney, which further review this research domain and suggest future research opportunities.

**“Empirical Research on External Auditors’ Detection of Financial Statement Fraud,”** by R. J. Nieschwietz, J. J. Schultz, Jr., and M. F. Zimbleman, *Journal of Accounting Literature*, (Vol. 19, 2000): 190–246.

This paper provides a thorough review of the empirical accounting research examining issues related to auditors’ detection of financial statement fraud. The review is organized around three main themes: the environmental conditions surrounding the

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## Have You Seen?

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auditors' detection of fraud; the auditors' fraud risk assessment, including predictors of fraud, unaided fraud risk assessments, and mechanically aided (checklists, statistical models, and expert systems) fraud risk assessments; and audit plans and procedures designed to detect fraud. The paper concludes by suggesting avenues for future research.

**“Competition and Big 6 Brand Name Reputation: Evidence from the Ontario Municipal Audit Market,”** by S. P. Bandyopadhyay and J. L. Kao, *Contemporary Accounting Research*, (Vol. 18, No. 1, 2001): 27–64.

In June 1991, Section 86 of the Ontario Municipal Act, which governs the appointment of municipal auditors, was amended to require all Ontario municipalities to review the appointment of their auditors periodically. Before the amendment municipalities could remove the incumbent auditors only for “just cause.” The authors contend that this amendment should increase competition in the municipal audit market and reduce fees. The authors find the postamendment period is characterized by relatively more auditor switches and open tenders and a moderate reduction in market concentration. The results of intertemporal comparisons of audit fees show a decrease in audit fees relative to the preamendment levels. The authors also find that notwithstanding the heightened competition, the Big 6 audit firms continue to command audit fee premiums over the non-Big 6 audit firms. This suggests that Big 6 audit fee premiums possibly reflect brand name reputation rather than monopoly/oligopoly rents.

**“The Disposition of Audit-Detected Misstatements: An Examination of Risk and Reward Factors and Aggregation Effects,”** by K. W. Braun, *Contemporary Accounting Research*, (Vol. 18, No. 1, 2001): 71–99.

This study examines auditors' propensity to waive proposed adjusting journal entries (PAJEs) that exceed materiality, either individually or in aggregate, under several different aggregation contexts. The author posits that auditors will be more likely to waive PAJEs in excess of materiality (non-GAAS decision) when there is potential reward for doing so or when there is little litigation risk from doing so. Case decisions from 155 audit partners and managers show that the auditors' decisions are not affected by potential reward (client's relative fees), but are affected by potential litigation risk (client's financial health). Additionally, auditors are more likely to make non-GAAS decisions when they are evaluating immaterial PAJEs that aggregate to a material level than when they are evaluating a single material PAJE.

**“The Effect of Accountability and Time Budgets on Auditors' Testing Strategies,”** by S. K. Asare, G. M. Trompeter, and A. M. Wright, *Contemporary Accounting Research*, (Vol. 17, No. 4, 2000): 539–560.

The authors of this study investigate how accountability and time budgets affect an auditor's testing strategies. The study identifies four separate decisions an auditor makes in

performing audit tests: first, the number of tests to conduct (extent); second, the number of potential hypotheses to directly test (breadth); third, the number of tests for each hypothesis (depth); and fourth, the number of potential error or nonerror hypotheses to test (focus). In this study, auditors inherited five potential causes of an unexpected increase in the gross margin of a client. The auditor's task was to perform tests to identify the actual cause of the fluctuation. The results indicate that accountability leads to an increase in the extent and breadth of testing but does not affect the depth of testing. Additionally, accountability leads to an increase in the testing of errors but results in a decrease in the testing of nonerrors. The results also show that a time budget decreases the extent and depth of testing but does not affect the breadth of testing. The authors find no evidence that accountability and time budgets interact to affect the auditor's testing strategy.

**“Mentoring and Organizational Justice among Audit Professionals,”** by P. H. Siegel, A. Reinstein, and C. L. Miller, *Journal of Accounting, Auditing & Finance*, (Vol. 16, No. 1, 2001): 1–25.

Prior literature generally considers a mentor as a more senior professional who sponsors a subordinate. This study examines how the mentoring process in public accounting firms affects an audit professional's perception of distributive and procedural justice. Distributive justice is defined as the employees' perceptions of the fairness of the outcomes they receive, including promotions and salary increases. Procedural justice is the development and application of equitable rules to allocate resources and the perceived fairness of the mechanisms used to arrive at those decisions. Results indicate that audit professionals who were mentored perceived more distributive and procedural justice. The authors also find that after controlling for distributive and procedural justice, mentoring makes significant contributions to explaining variances in career expectations, job satisfaction, and organizational commitment.

**“Auditor Resignations: Clientele Effects and Legal Liability,”** by S. Z. Shu, *Journal of Accounting and Economics*, (Vol. 29, 2000): 173–205.

The author of this study examines two possible hypotheses of why auditors resign from their clients. The study finds that auditor resignation is positively related to increased client legal exposure. The study also finds that auditor resignation is positively related to clientele mismatch resulting from changes in auditor characteristics. The author also finds that investors react negatively to auditor resignation. Further, the magnitude of the stock market reaction is related to litigation risk: the greater the increase in litigation risk, the greater the drop in stock price, provided the resignation occurs in the annual audit period. The author also finds that dropped clients are more likely to engage small auditors than client-initiated auditor changes.

# Auditing Standards Board Update as of April 30, 2001

*Ray Whittington, DePaul University  
Academic Member of the Auditing Standards Board*

At its April meeting the ASB issued one new SAS and voted to expose two others. In this update, I will review those documents. As always, please contact me if you have any questions, comments, or suggestions.

SAS No. 94, *The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit*

SAS No. 94 was issued to update SAS No. 55 and provide guidance about the effect of information technology (IT) on internal control, and on the auditor's understanding of internal control and assessment of control risk. Recognizing that IT can have a significant effect on internal control and the manner in which an audit should be conducted, the SAS:

- Provides guidance to help auditors determine whether a professional possessing IT skills is needed on the audit team.
- Describes how IT may affect internal control, evidential matter, and the auditor's understanding of internal control and assessment of control risk.
- Incorporates and expands on the concept in AU Section 326, *Evidential Matter*, that in circumstances where a significant amount of information supporting one or more financial statement assertions is electronically initiated, recorded, processed, and reported, the auditor may determine that it is not practical or possible to restrict detection risk to an acceptable level by performing only substantive tests for one or more financial statement assertions. In such circumstances, tests of controls to assess control risk at less than the maximum must be performed.
- Clarifies that in obtaining an understanding of the entity's financial reporting process, the auditor should gain an understanding of the automated and manual procedures an entity uses to prepare financial statements and related disclosures, and how misstatements may occur. This understanding should include—
  - The procedures for entering transaction totals into the general ledger.
  - The procedures for initiating, recording, and processing journal entries in the general ledger, including standard journal entries required on a recurring basis and nonstandard journal entries to record nonrecurring or unusual transactions or adjustments.
  - The procedures for recording recurring and nonrecurring adjustments to the financial statements that are not reflected in formal journal entries, such as consolidating adjustments, report combinations, and reclassifications.

The last set of requirements is responsive to the concerns of the Panel on Audit Effectiveness about the need to focus on nonstandard and consolidating adjustments. SAS No. 94 is effective for audits of financial statements for periods beginning on or after June 1, 2001.

## GAAS Hierarchy

The first exposure draft, titled *Generally Accepted Auditing Standards*, identifies which auditing publications auditors should look to when performing an audit, and clarifies the level of authority of such publications. Over recent years, the body of auditing literature has grown and evolved considerably. The ASB has issued 94 SASs and numerous auditing interpretations. In addition, the AICPA has published auditing statements of position, audit and accounting guides, audit procedure studies, and other publications containing auditing guidance of varying authority. Although the AICPA has, on occasion, realigned and clarified the authority of these publications, some uncertainty remains in the minds of auditors and others about which publications auditors must adhere to when conducting an audit.

The proposed SAS creates a three-level hierarchy as described in Table 1.

*(continued on page 11)*

**Table 1**

<b>Level of Authority</b>	<b>Pronouncements</b>	<b>The Auditor's Obligation</b>
1. Standards	The ten generally accepted auditing standards and the SASs	The auditor should be prepared to justify departures.
2. Interpretive guidance	Interpretations of the SASs; and auditing guidance in Audit and Accounting Guides and AICPA Statements of Position	The applicable guidance should be considered and, if it is not applied, the auditor should be prepared to explain how he or she complied with the SAS provisions addressed by the interpretive guidance.
3. Other auditing publications	Articles in journals and the AICPA CPA Letter; continuing professional education material; textbooks; guide books; audit programs and checklists; and other auditing publications	The auditor is not required to consider this guidance.

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## ASB Update as of April 30, 2001

(continued from page 10)

### Audit Documentation

The ASB also approved issuance of a proposed standard on audit documentation that would supersede SAS No. 41, *Working Papers*. However, since the April meeting, certain issues have been raised that were considered important enough to warrant further discussion at the ASB's June meeting. This proposed standard has been particularly difficult to draft because it has significant audit, peer review, enforcement, and legal liability implications. In developing the guidance, the ASB considered incorporating the concept "reperformance" as required for audits performed in accordance with *Generally Accepted Governmental Auditing Standards* (GAGAS). GAGAS require audit documentation sufficient to "enable an experienced auditor to examine the same transactions and records." However, the ASB stopped short of this requirement believing that it would support the objective enforcement of auditing standards but not necessarily the objective of improving audit quality.

The proposed standard introduces the concept that audit documentation should (1) enable a reviewer with relevant knowledge and experience to understand from the information contained therein the nature, timing, extent, and results of auditing

procedures performed, and the evidence obtained, and (2) indicate who performed and reviewed the work. It also requires documentation of audit findings and issues that in the auditor's judgment are significant, the actions taken to address them, and the basis for the conclusions reached. Finally, the proposed standard amends several existing standards, most significantly SAS No. 56 and SAS No. 59. The amendment to SAS No. 56 would add a specific documentation requirement that applies when an auditor uses an analytical procedure as the principal substantive test of a significant financial statement assertion. The amendment to SAS No. 59 would require the auditor to document the conditions or events that led him or her to believe that there is substantial doubt about an entity's ability to continue as a going concern; the work performed in connection with the auditor's evaluation of management's plans; the auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time; and the consideration and effect of that conclusion on the financial statements, disclosures, and audit report. Both of these amendments are responsive to recommendations of the Panel on Audit Effectiveness.

### CALL FOR PAPERS

## *Advances in Accounting Behavioral Research*

*Advances in Accounting Behavioral Research* (AABR) publishes articles encompassing all areas of accounting that incorporate theory from and contribute new knowledge and understanding to the fields of applied psychology, sociology, management science, and economics. AABR is primarily devoted to original empirical investigations; however, critical review papers, theoretical analyses, and methodological contributions are welcome. AABR is receptive to replication studies, provided they investigate important issues and are concisely written, and especially welcomes manuscripts that integrate accounting issues with organizational behavior, human judgment/decision making, and cognitive psychology.

Manuscripts will be blind-reviewed by two reviewers and reviewed by an associate editor. AABR now accepts electronic submissions and all manuscripts should be forwarded to the editor. The manuscript will then be forwarded to an associate editor and reviewers via email, which should shorten review times considerably. Please incorporate all text, tables, and figures into a Word document before submitting. Also, include a separate Word document with any experimental materials or survey instruments. Please send the electronic documents to the new editor at the following email address: VArnold@sba.uconn.edu. If you are unable to submit your manuscript electronically, please forward the manuscript along with the experimental materials to the following address:

Vicky Arnold, *Editor*  
*Advances in Accounting Behavioral Research*  
Department of Accounting U41A  
School of Business Administration  
University of Connecticut  
Storrs, CT 06269-2041

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# Auditing Section Concurrent Sessions

## American Accounting Association Annual Meeting

Atlanta, GA • August 13-15, 2001

### Monday, August 13 (10:15 am–11:45 am)

**Session Title:** Independence

**Moderator:** Lynda Thoman, Purdue University

Paper 1. *Auditors' Independence: Appearance vs. Fact.* Rachel Schwartz, Washington University; Nick Dopuch, Washington University; Ron King, Washington University

Paper 2. *Independence Risk and the Auditor's Decision Process.* Allen Blay, University of California-Riverside

Paper 3. *The Effect of Management Integrity and Non-Audit Services on Client Acceptance and Staffing Decisions.*

Greg Trompeter, Boston College; Stephen Asare, University of Florida; Jeff Cohen, Boston College

**Discussant:** Brian Shapiro, University of Minnesota

### Monday, August 13 (2:00 pm–3:30 pm)

**Session Title:** Audit Pricing

**Moderator:** Nicholas Dopuch, Washington University

Paper 1. *Discretionary Accounting Accruals, Management Incentives and Audit Pricing.* Ferdinand Gul, City University of Hong Kong and Judy Tsui, City University of Hong Kong

Paper 2. *Audit Pricing in Public and Private Firms.* Paul Chaney, Vanderbilt University; Debra Jeter, Vanderbilt University; and Lakshmanan Shivakumar, London Business School

Paper 3. *Do Board Characteristics Influence Audit Fees?* Stephen Taylor, University of Technology, Sydney; Alan Craswell, University of Sydney; and Jeff Coudon, University of Technology, Sydney

**Discussant:** Dan Simunic, University of British Columbia

### Monday, August 13 (4:00 pm–5:30 pm)

**Session Title:** Audit Quality

**Moderator:** Robert Rouse, College of Charleston

Paper 1. *The Information Content of Auditor Changes: Evidence from Firms that Change Auditors and Subsequently File for Bankruptcy.* E. Michael Bamber, University of Georgia; Mark Dawkins, University of Georgia; Ena Rose-Green, Florida International University

Paper 2. *Differences in Audit Quality Among Audit Firms: An Examination Using Bid-Ask Spreads.* Paul Schauer, Bowling Green University

Paper 3. *Differences in Conservatism Between Big Eight and Non-Big Eight Auditors.* Sudipta Basu, Baruch College; Lee Seok Hwana, Baruch College; and Ching-Lih Jan, California State University–Hayward

**Discussant:** John Reisch, East Carolina University

### Tuesday, August 14 (10:15 am–11:45 am)

**Session Title:** Auditing and the Quality of Earnings

**Moderator:** Jeri K. Calle, Partner, KPMG

**Panelists:**

Greg Jonas, Partner, Arthur Andersen

Katherine Schipper, Duke University and In-coming academic FASB member

Zoe-Vonna Palmrose, University of Southern California

Walter Schuetze, Former FASB member and Former SEC chief accountant

### Tuesday, August 14 (2:00 pm–3:30 pm)

**Session Title:** Audit Committees

**Moderator:** Robert Allen, University of Utah

Paper 1. *The Association Between Board and Audit Committee Characteristics and Problems Relating to Internal Control.* Jayanthi Krishnan, Temple University

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## AAA Convention Auditing Concurrent Sessions

(continued from page 12)

Paper 2. *The Effectiveness of Blue-Ribbon Committee Recommendations in Mitigating Financial Misstatements: An Empirical Study*. Lawrence Abbott, University of Memphis; Susan Parker, Santa Clara University; and Gary Peters, University of Georgia

Paper 3. *Audit Committee Characteristics and the Quality of Financial Reporting: An Empirical Analysis*. Andrew Felo, Millsaps College; Srinivasan Krishnamurthy, State University of New York–Binghamton; and Steve Solieri, University of Scranton

**Discussant:** Dana R. Hermanson, Kennesaw State University

### Tuesday, August 14 (2:00 pm–3:30 pm)

**Session Title:** Technology

**Moderator:** Jay Thibodeau, Bentley College

Paper 1. *Auditor Knowledge of Risks Associated with Enterprise Resource Planning Systems*. James Hunton, University of South Florida; Arnie Wright, Boston College; and Sally Wright, UMASS-Boston

Paper 2. *Control and Assurance in E-Commerce: Privacy, Integrity, and Security at eBay*. Rong-Ruey Duh, National Taiwan University; Karim Jamal, University of Alberta; and Shyam Sunder, Yale University

Paper 3. *Professionalization in Action: Accountants' attempt at Building a Network of Support for the Webtrust e-Commerce Seal of Assurance*. Yves Gendron, University of Alberta and Michael Barrett, University of Alabama

**Discussant:** Timothy Louwers, Louisiana State University

### Tuesday, August 14 (4:00 pm–5:30 pm)

**Session Title:** Assurance in an eWorld

**Moderator:** Charles Le Grand, Director of Technology Practices, IIA

**Panelists:**

Russell Gates, Partner, Arthur Andersen

Thomas Horton, Past Chairperson, National Association of Corporate Directors

Thomas Patterson, Senior Manager, KPMG

Anthony S. Roberson (Scott), Director of Internal Auditing, Home Depot

### Wednesday, August 15 (10:15 am–11:45 am)

**Session Title:** Auditor Industry Specialization

**Moderator:** Brian Ballou, Auburn University

Paper 1. *Auditor Industry Specialization and the Earnings Response Coefficient*. Jagan Krishnan, Temple University; Steven Balsam, Temple University; and Joon Yang, Temple University

Paper 2. *Audit Specialist Designations: Measurement Considerations*. Terry Neal, University of Kentucky and Richard Riley, West Virginia University

Paper 3. *Auditor Industry Specialization and the Existence of Premium and Discount Suppliers: Fee and Production Function Effects*. Keith Houghton, University of Melbourne; Colin Dollery, Edith Cowan University; Christine Jubb, University of Melbourne; and Gary Monroe, Edith Cowan University

**Discussant:** Audrey Gramling, Georgia State University

### Wednesday, August 15 (10:15 am–11:45 am)

**Session Title:** Auditing and Capital Markets

**Moderator:** Debra Jeter, Vanderbilt University

Paper 1. *Market Perceptions of Management Advisory Services and Auditor Quality: Evidence from the Informativeness of Earnings*. Judy Tsui, City University of Hong Kong and Ferdinand Gul, City University of Hong Kong

(continued on page 14)

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## AAA Convention Auditing Concurrent Sessions

(continued from page 13)

Paper 2. *The Information Content of Internal Control Related Matters Noted During an Audit in Form 8-K Filings for Auditor Realignment*. Srinivasan Sankaraguruswamy, Georgetown University; K. Raghunandan, Texas A&M International University; and J. Scott Whisenaut, University of Houston

Paper 3. *Auditor Tenure, Auditor Independence and Earnings Management*. Billy Soo, Boston College; Greg Trompeter, Boston College; and Larry Davis, Michigan Tech University

**Discussant:** Brad Schafer, University of Utah

### Wednesday, August 15 (2:00 pm–3:30 pm)

**Session Title:** Audit Planning

**Moderator:** Rich Houston, University of Alabama

Paper 1. *The Influence of Linguistic Delivery Style and Messenger Credibility on Auditors' Judgments*. Christie Comunale, Long Island University; Thomas Sexton, State University of New York-Stony Brook; and Terry Sincich University of South Florida

Paper 2. *The Impact of Client Employee Compensation Contracts on the Design of Audit Procedures*. Shane Dikolli, University of Texas at Austin; Susan McCracken, University of Toronto; Justin Walaski, CPA Australia

Paper 3. *The Effects of Risk Assessments and Partner Preferences on Audit Planning Decisions*. James L. Bierstaker, University of Massachusetts–Boston; Arnold Wright, Boston College

**Discussant:** Mary Callahan Hill, Kennesaw State University

### Wednesday, August 15 (2:00 pm–3:30 pm)

**Session Title:** Audit Reporting

**Moderator:** Robert Tucker, Fordham University

Paper 1. *Explaining Why Auditors do not “Cry Wolf” Often Enough: Mitigating Factors, Contrary Information, and Auditors' Loss Function*. Divish Sharma, Griffith University

Paper 2. *Do Going Concern Uncertainty Disclosures Have Information Content?* Richard Taffler, Cranfield University; David Citron, City University Business School, London; and JinnYang Uang, Cranfield University

Paper 3. *Audit Committee Composition and Auditor Changes*. Terry Neal, University of Kentucky and Joseph Carcello, University of Tennessee

**Discussant:** James C. Lampe, Texas Tech University

### Wednesday, August 15, (10:15 am–11:45 am)

**Session Title:** Auditing Section Forum #1

*Hofstede's Cultural Dimensions: An Examination of their Effects on Financial Statement Errors*. Phyllis Mo, Hong Kong Polytechnic University and K. Hung Chan, Lingnan University

*Strategic Auditing Litigation and Settlement under Negligence Liability*. Hua Lee, National Taiwan University and Taychang Wang, National Taiwan University

*Auditor Industry Specialization and Auditor Reporting*. Lawrence Abbott, University of Memphis; Susan Parker, Santa Clara University; Gary Peters, University of Georgia

*Non-audit Services, Auditor Independence and Earnings Management*. Peter Pope, Lancaster University; Pelham Gore, Lancaster University; Ashni Singh, Lancaster University

*Banking Industry Financial Statement Fraud and Its Evolution*. Brian Patrick Green, University of Michigan–Dearborn and Alan Reinstein, Wayne State University

*Audit Quality and the Provision of Nonaudit Services*. Joel Pike, University of Wisconsin–Madison

### Wednesday, August 15 (2:00 pm–3:30 pm)

**Session Title:** Auditing Section Forum #2

*Auditors' Belief Revision: Recency Effects of Contrary and Supporting Audit Evidence and Source Reliability*. Arvind Patel, University of South Pacific

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## AAA Convention Auditing Concurrent Sessions

(continued from page 14)

*The New "Audit": How Practice Threatens the Vestiges of the Public Interest and Questions the Relevance of Audit Research.* Timothy Fogarty, Case Western Reserve University

*Do Material Misstatements Affect the Decisions of Financial Statement Users: An Experiment.* Brad Tuttle, University of South Carolina; Maribeth Collier, University of South Carolina; David Plumlee, University of Utah

*The Influence of Accountability on Auditors' Judgments in Tasks of Varying Structure.* Diane Matson, Metropolitan State University

*The Effect of Audit Structure and Task Complexity on Auditors' Performance.* Iris Stuart, California State University-Fullerton

*An Exploration of Financial and Corporate Governance Factors Affecting Auditor Going Concern Decision Accuracy.* Susan Parker, Santa Clara University; Gary Peters, University of Georgia; Howard Turetsky, San Jose State University

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## Call for Contribution

If you have an idea for an article regarding a topic related to auditing and assurance which you believe would be of benefit to the members of the auditing section, please consider preparing and submitting an article to be included in a future issue of *The Auditor's Report*. For example, classroom innovation continues to be an important area of interest for the profession. Articles that describe such innovations and their benefits would be appropriate for submission. Of course, articles addressing numerous other topics pertinent to auditing and assurance would also fit well with the purposes of newsletter. If you have an idea for a submission, contact the editor.

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### CALL FOR PAPERS

## *Journal of Forensic Accounting*

### Special Issue on Expert Witnessing

The *Journal of Forensic Accounting* requests submissions to be published in a special issue on expert witnessing. The submissions must address issues relevant to expert witnessing including, but not limited to, the following topics:

- How to connect with and persuade a jury
- Qualifying the expert witness and meeting challenges under *Daubert*
- The limits of discovery and privileged communications with the lawyer
- How to handle abuse by attorneys
- How to prepare an effective *curriculum vitae* (CV) and written reports
- Rule 26 from the Federal Rules of Civil Procedures
- How to market expert witnessing services including premium fee-setting, billing and collection techniques
- What traits make up an effective expert witness
- How to develop and communicate an expert opinion

Thomas Buckhoff, Ph.D., CPA, CFE and Walter Pagano, CPA, CFE will serve as coeditors for this special issue on expert witnessing that will be published in September 2002. To be guaranteed consideration, submissions must be received by January 15, 2002. For submission editorial guidelines please visit the *Journal of Forensic Accounting* web site:

<http://www.rtedwards.com/journals/JFA/>

Submissions in quadruplicate, including a non-refundable processing fee of \$35, should be sent directly to:

Thomas Buckhoff  
*Journal of Forensic Accounting*  
Department of Accounting and Information Systems  
403D Minard Hall • North Dakota State University  
Fargo, ND 58105-5075

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## CALL FOR PAPERS

# ***ADVANCES IN ACCOUNTING, Vol. 19***

*ADVANCES IN ACCOUNTING* is a research journal providing academics and practitioners a forum to address current and emerging issues in accounting. Manuscripts may embrace any research methodology and examine any accounting-related subject. All manuscripts are blind-reviewed by two members of the editorial board. The results of initial reviews normally will be reported to the authors within ten to twelve weeks from the date of manuscript submission.

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