



# THE AUDITOR'S REPORT

Volume 30, No.3, Summer 2007

## AUDITING SECTION/AMERICAN ACCOUNTING ASSOCIATION

### REPORT OF THE PRESIDENT

It is hard to believe that my term as your president is coming to an end. It has truly been an honor to serve the Auditing Section over the last year. As I turn the presidency over to Mark Peecher, I want to express my appreciation to the many individuals who served the section as officers and on committees. We owe the success of the Section to the contributions of many.



Ray Whittington

#### Call for Officer Nominations

We have a rich tradition of outstanding leadership that has developed and nurtured a section that has become the model for the other sections of the American Accounting Association. It is time again to identify the individuals who will effectively lead the Auditing Section into the future.

This fall, our Section will elect two new officers—Vice President-Academic (President-Elect) and Secretary, who will begin service in August 2008. Please take a moment to nominate individuals who you believe will continue the tradition of outstanding leadership for the Section. Nominations should be submitted

to me by July 15, 2007. More details are provided on the Section's website.

#### Be Sure to Vote!

On a related note, in the fall you will have an opportunity to vote for the new officers. If our democratic process is to work effectively, it is imperative that we get good participation. I urge you to vote for those who will best serve the Auditing Section.

#### Call for Award Nominations for Auditing Section Awards

Each year the Section recognizes a few of its outstanding members. These individuals will be recognized at our Midyear Meeting in Austin, Texas. Please take a few minutes to consider which of our colleagues are deserving of the following awards:

1. Notable Contributions to the Auditing Literature
2. Distinguished Service
3. Outstanding Auditing Educator
4. Outstanding Auditing Dissertation
5. Innovation in Audit and Assurance Education

The nomination deadline is July 15, 2007. For information on where to send your nomination, please review the details for each award, which are posted on the Section's website.

#### Third Annual PCAOB Symposium

In April, the PCAOB hosted its third annual symposium, which included selected members of the Auditing Section, the AAA, the SEC, the GAO, and the FASB. This year the symposium had several objectives: (1) to discuss the implications of selected synthesis projects for the PCAOB and the staff in the various areas, (2) to begin a mutual discussion of the cost-effectiveness issues related to Sox, section 404, Auditing Standard No. 2 and the PCAOB, and (3) to consider the issue of the key competencies for future auditors and the ways that they may be developed. I want to express our thanks to Gary Holstrum, Tom Ray, and Phil Wedemeyer for their work in continuing the collaboration between the Auditing Section and the PCAOB.

#### Current Issues in Auditing

Our new online journal, *Current Issues in Auditing*, began accepting submissions on March 15th. We are grateful that Dana Hermanson and Scott Showalter agreed to serve as co-editors of the journal. The purpose of the journal is to advance the dialogue

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### FALL 2007 ISSUE DEADLINE

The deadline for material to be included in the Fall 2007 issue of *The Auditor's Report* is September 30, 2007. The preferred format is a Word file attached to an email message. We also are open to any proposals for materials that anyone would like to submit. Please send all material and proposals to the Editor at the address below by September 30, 2007 to ensure timely publication of the issue.

Jennifer Mueller, Editor  
Auburn University  
301 Lowder Business Building  
Auburn, AL 36849  
Phone: (334) 844-6219  
Email: muelljm@auburn.edu

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

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## President's Report

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between academics and practitioners on current issues facing practice. As such, we believe the journal will provide a valuable contribution to the literature that is not currently being provided by other journals. We encourage you to submit your manuscripts that fit the profile described in the Call for Papers on the Auditing Section's website.

### AAA Annual Meeting — August 5–8, 2007

I hope you are making plans to join us at the AAA's 2007 Annual Meeting to be held August 5th through the 8th in Chicago. Christine Earley, the Auditing Section's Annual Meeting Coordinator, is heading up our program at the AAA meeting, with the assistance of Chris Hogan. Over 120 research and education-related papers were submitted for the Section's sponsored concurrent sessions. We are indebted to many of you who served as reviewers of these papers.

Our annual Section luncheon will be held Monday, August 6th. This year's luncheon speaker will be Edward E. Nusbaum, Chief Executive Officer of Grant Thornton LLP. Ed is a leader in the profession and a prior member of the AICPA Auditing Standards Board. I am sure that he will have a stimulating message for our members.

### 2008 Auditing Section's Midyear Conference

Gary Peters and Roger Martin are coordinating the Midyear Auditing Section Conference to be held January 17–19, 2008 at the Austin Marriott at the capitol in Austin, Texas. The deadline for paper submissions and session proposals is September 1, 2007. For more information check the Section's website.

The section will also host its annual Auditing Doctoral Consortium on Thursday, January 17, 2008, prior to the start of the Midyear Conference. Vicky Hoffman is serving as the Doctoral Consortium Chair. Please help publicize this event to your Ph.D. students. It is a great opportunity for them to get insights from leading auditing researchers and to network with other Ph.D. candidates and faculty.

### Thanks to Outgoing Officers

I want to conclude by thanking our outgoing officers. It has been an honor and privilege to serve with Mark Beasley (Past-President) and Kathryn Kadous (Treasurer). They will rotate off the Executive Committee at the August AAA meetings. Both of these individuals have worked diligently on behalf of the Auditing Section. While we will miss them, we are excited to welcome two new members of the Executive Committee Audrey Gramling —(Vice President – Academic) and Mark Taylor (Treasurer).

Have a great summer. I look forward to seeing you in Chicago in August!

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## CALL FOR SUBMISSIONS

### Fourteenth Annual Midyear Auditing Section Conference

The Fourteenth Annual Midyear Auditing Section Conference will be held January 17–19, 2008 at the Austin Marriott at the Capitol, Austin, Texas.

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 (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 Roger Martin and Gary Peters.

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. Instructional cases should be in a format similar to that used in *Issues in Accounting Education*. It should be noted that papers accepted for presentation at the 2008 Midyear Auditing Section Conference may also be submitted for presentation at the AAA Annual Meeting scheduled for August 2008.

Submissions must be received by **September 1, 2007**, to be considered for the program. Early submission is highly encouraged. Any questions should be addressed to Roger Martin or Gary Peters via email to AMC2008@walton.uark.edu. See the online newsletter for more information.

**CALL FOR PAPERS**  
**12th Annual Ethics Research Symposium**

**Hosted by the AAA's Professionalism and Ethics Committee — August 4–5, 2007, Chicago, Illinois**

The Professionalism and Ethics Committee of the American Accounting Association invites submission of papers for presentation at the 12th Annual Ethics Research Symposium to be held August 4–5, 2007 in Chicago, IL. This Symposium will focus on ethics research and teaching within the field of accounting.

Highly publicized business and accounting scandals have prompted an increased interest in the ethical aspects of accounting practice. Accounting ethics research and education are seen to be important because one of the principal purposes of accounting is to foster the creation of credible and reliable information for purposes of decision-making throughout society. Honesty, integrity and objectivity are among the most important qualities of ethical accounting practice.

The Symposium will take place as a Continuing Professional Education seminar immediately preceding the 2007 American Accounting Association Annual Meeting in Chicago.

**CALL FOR VOLUNTEERS**  
**Fourteenth Annual Midyear Auditing Section Conference**

The Fourteenth Annual Midyear Auditing Section Conference will be held **January 17–19, 2008** at the Austin Marriott at the Capitol, Austin, Texas.

The Section needs your help in planning and conducting the 2008 Conference. If you would like to volunteer your assistance in one or more of the following areas, please email the completed form to conference Co-Chairs, Roger Martin or Gary Peters via email to AMC2008@walton.uark.edu.

Name \_\_\_\_\_

Address \_\_\_\_\_

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

Phone \_\_\_\_\_ Fax \_\_\_\_\_ Email \_\_\_\_\_

**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.

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# GAO UPDATE

by Jeanette Franzel and Maxine Hattery

## Critical Challenge Facing Our Nation

The message of a new GAO publication, *Fiscal Stewardship: A Critical Challenge Facing Our Nation*, is one that Comptroller General David M. Walker has delivered in testimony before Congress and before audiences across the country. It is set forth succinctly in *Fiscal Stewardship* and illustrated with graphic clarity: Unless we change course, Americans face a future of federal deficits and debt escalating to unsustainable levels. If we do not confront the nation's large and growing structural deficits now, we risk failing in our fiscal stewardship responsibility to our children, grandchildren, and generations of unborn Americans.

*Fiscal Stewardship* develops its message through summary and analysis of financial information from the fiscal year 2006 *Financial Report of the United States*—the federal government's comprehensive report on its financial condition—and budget information reported by the Department of the Treasury in coordination with the Office of Management and Budget. In addition, the publication offers a way forward through concerted action responding to demographic trends, such as the aging of the population, and meeting the challenge of rising health care costs.

GAO recently sent a copy of *Fiscal Stewardship* (GAO-07-362SP) to each member of Congress along with other publications helpful to legislative and policy decision makers. These publications are now available to all on the GAO website, <http://www.gao.gov>.

- **The Nation's Long-Term Fiscal Outlook** updates GAO's long-term fiscal simulations. [The simulations are updated three times a year. *The Nation's Long-Term Fiscal Outlook: January 2007 Update* (GAO-07-510R) was issued in February 2007.]
- *Understanding the Similarities and Differences between Accrual and Cash Deficits* (GAO-07-117SP) and its supplement (GAO-07-341SP) update the figures for fiscal year 2006.
- *Understanding the Primary Components of the Annual Financial Report of the United States Government* (GAO-05-958SP) helps those interested in going beyond *Fiscal Stewardship* to exploring the entire *Financial Report of the United States Government*.
- "Statement of the Comptroller General of the United States" accompanied GAO's report on the U.S. government's consolidated financial statements for fiscal years 2006 and 2005 and summarizes the report's findings.

## GAO's Strategic Plan for 2007–2012

GAO proposes goals and strategies for serving the Congress in its fiscal years 2007–2012 strategic plan. It addresses the

nation's long-range fiscal outlook, large and growing long-term fiscal imbalance, and increased concerns about meeting the health care needs of American citizens. It also covers GAO's work related to major government transformation efforts, especially in the areas of homeland security and defense.

Broad themes provide the context for the strategic plan: changing security threats, sustainability concerns, economic growth and competitiveness, global interdependence, societal change, quality of life, and science and technology. These are described more fully in a companion publication to the strategic plan, *Forces That Will Shape America's Future: The Themes from GAO's Strategic Plan*.

To ensure that the plan reflects evolving congressional and national needs, GAO solicited input from members of the Congress and their staff, other congressional agencies—the Congressional Budget Office and the Congressional Research Service, federal inspectors general, state and local government audit organizations, and other key accountability organizations. GAO uses a strategic planning and management framework based on a hierarchy of four elements, beginning at the highest level with four strategic goals:

1. Provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people.
2. Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence.
3. Help transform the government by supporting a broad-based reexamination of federal programs.
4. Maximize the value of GAO by being a model federal agency and a world-class professional services organization.

Each strategic goal is further defined by strategic objectives, performance goals, and key efforts.

*Themes* (GAO-07-467SP, March 2007) and the strategic plan (GAO-07-1SP, March 2007) are available on the GAO website, <http://www.gao.gov>.

## Yellow Book Tools: Summary of Major 2007 Changes and Training Slides

GAO has issued a list of major changes in the January 2007 revisions of *Government Auditing Standards*. The list highlights key overall revisions and those related to (1) ethics and independence, (2) professional judgment and competence, (3) the types of GAGAS audits and attestation engagements, (4) internal auditors, (5) financial audits, (6) attestation engagements, (7)

## GAO Update

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performance audits, and (8) guidance material. The list is intended as a guide for government audit organizations and practitioners as they update their policies and procedures for conducting government audits.

GAO has also posted a comprehensive set of annotated slides to assist the government audit community in developing training materials for the revised standards. In addition to highlighting the major revisions, the slides contain information about the process used to issue the 2007 Yellow Book, the reasons for the changes, what the changes will mean for government auditors, and effective dates. The slides also outline proposed revisions to quality control and peer review standards, which will be finalized later this year.

When the final *2007 Revision of Government Auditing Standards* is issued, GAO will issue a Professional Requirements Tool with a list of professional responsibilities that are specifically identified in the standards by the words “must” and “should.”

For further information, please call Jeanette Franzel at (202) 512-9471 or Michael Hrapsky at (202) 512-9535, or email [yellowbook@gao.gov](mailto:yellowbook@gao.gov). Electronic versions of the documents can be accessed on the Web at <http://www.gao.gov/govaud/ybk01.htm>.

### Recent Reports

#### Revenue

Tax Compliance: Thousands of Federal Contractors Abuse the Federal Tax System GAO-07-742T, April 19, 2007 Abstract Highlights-PDF PDF Accessible Text

Using Data from the Internal Revenue Service’s National Research Program to Identify Potential Opportunities to Reduce the Tax Gap GAO-07-423R, March 15, 2007 Abstract PDF

#### Hurricanes

Gulf Coast Rebuilding: Preliminary Observations on Progress to Date and Challenges for the Future GAO-07-574T, April 12, 2007 Abstract Highlights-PDF PDF Accessible Text

Hurricanes Katrina and Rita Disaster Relief: Continued Findings of Fraud, Waste, and Abuse GAO-07-300, March 15, 2007 Abstract Highlights-PDF PDF Accessible Text

#### Improper Payments

Improper Payments: Agencies’ Efforts to Address Improper Payment and Recovery Auditing Requirements Continue GAO-07-635T, March 29, 2007 Abstract Highlights-PDF PDF Accessible Text

### Social Insurance and Health Care

Social Security Reform: Greater Transparency Needed about Potential General Revenue Financing GAO-07-213, March 22, 2007 Abstract Highlights-PDF PDF Accessible Text

Medicare: Thousands of Medicare Part B Providers Abuse the Federal Tax System GAO-07-587T, March 20, 2007 Abstract Highlights-PDF PDF Accessible Text

Health Care Spending: Public Payers Face Burden of Entitlement Program Growth, While All Payers Face Rising Prices and Increasing Use of Services GAO-07-497T, February 15, 2007 Abstract PDF Accessible Text

Poverty in America: Consequences for Individuals and the Economy GAO-07-343T, January 24, 2007 Abstract Highlights-PDF PDF Accessible Text

### Iraq

Stabilizing Iraq: Preliminary Observations on Budget and Management Challenges of Iraq’s Security Ministries GAO-07-637T, March 22, 2007 Abstract Highlights-PDF PDF Accessible Text

Securing, Stabilizing, and Rebuilding Iraq: GAO Audit Approach and Findings GAO-07-385T, January 18, 2007 Abstract PDF Accessible Text

### Fiscal Outlook

Fiscal Year 2006 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation’s Accountability and Fiscal Stewardship Challenges GAO-07-607T, March 20, 2007 Abstract Highlights-PDF PDF Accessible Text

Federal Financial Management: Critical Accountability and Fiscal Stewardship Challenges Facing Our Nation GAO-07-542T, March 1, 2007 Abstract Highlights-PDF PDF Accessible Text

Long-Term Budget Outlook: Deficits Matter—Saving Our Future Requires Tough Choices Today GAO-07-389T, January 23, 2007 Abstract PDF Accessible Text

### Homeland Security

Secure Border Initiative: SBInet Expenditure Plan Needs to Better Support Oversight and Accountability GAO-07-309, February 15, 2007 Abstract Highlights-PDF PDF Accessible Text

Homeland Security Grants: Observations on Process DHS Used to Allocate Funds to Selected Urban Areas GAO-07-381R, February 7, 2007 Abstract PDF Accessible Text

# Using PCAOB Inspection Reports to Add Credibility and Relevance while Teaching Auditing Concepts

By Professor Tad Miller, California Polytechnic State University

This teaching note assumes students learn better when they believe material is both credible and relevant. Because of this, I seek materials which increase the credibility of my lectures and illustrate the relevance of important topics. For example, I often show my students the cover of the AICPA Professional Standards and various pages from those standards so as to remind them that the material being discussed originated with the AICPA's Auditing Standards Board. Similarly, if we are covering material that originated with the SEC, I may project the SEC's homepage. The PCAOB's inspection reports (available at [www.pcaobus.org](http://www.pcaobus.org)) provide an additional way to reinforce the credibility and relevance of various auditing topics.

I prepared slides from the PCAOB inspection report title pages to illustrate that these comments involve the biggest and best auditing firms in the world. I also use slides with comments from PCAOB inspection reports to emphasize that topics being discussed in class relate to the real world. In order to avoid embarrassing any firm, I don't disclose the specific inspection reports from which the quotes are actually taken. Below are some example quotes from inspection reports that I have used in class.

The following comment has appeared in more than one inspection report and is the first PCAOB inspection report that I reference in my class. I use this quote to illustrate the third standard of field work which is central to much of what I teach in auditing.

"In this audit, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion."<sup>1</sup>

The next quote also relates to the third standard of field work while demonstrating the need to properly document audit work.

"In some cases, the conclusion that the Firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the Firm claims to have performed the procedure. PCAOB Auditing Standard No. 3 ... provides that ... a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence."<sup>2</sup>

Initially, my students think of misstatements as mathematical miscalculations and have difficulty understanding that they are departures from GAAP. The following quote lends itself to a discussion about departures from GAAP as well as the classification assertion.

"In this audit, the Firm failed to address appropriately a departure from GAAP before issuing its audit report. The issuer incorrectly classified as part of operating income a gain on the sale of an interest in a joint venture. The gain should have been reported as part of other income."<sup>3</sup>

The next quote is a personal favorite because it covers multiple issues. First, the comment can be used to introduce the responsibility of an auditor to assess a client's ability to continue as a going concern. Second, it shows that the assumptions auditors use to form an opinion must be consistent with the environment in which the client is operating. Finally, it illustrates the need to obtain evidence supporting audit assumptions.

"The Firm's evaluation of the issuer's ability to continue as a going concern was inadequate. The Firm's conclusion that the issuer had the ability to do so was based, in part, on the availability of the issuer's revolving credit facility. As a result, the Firm did not include a going-concern paragraph in its report... The issuer's access to the revolving credit facility, however, was dependent on the issuer's compliance with all the debt covenants, and the Firm failed to assess adequately the likelihood that the issuer would be able to meet one of these covenants, the 12-month trailing revenue covenant, for the first quarter of 2004. Specifically, although actual revenues for 11 of the 12 months to be used for measuring compliance with this covenant were available before the end of field work, and these amounts appeared to indicate that revenues for the 12 months would fall short of the amount that would allow the issuer to meet the covenant at the end of the first quarter, the Firm did not specifically evaluate the issuer's ability to meet this covenant for the first quarter, nor did it evaluate how the issuer would be able to continue as a going concern should it not meet the covenant. In addition, the Firm did not obtain a management representation covering projections and assumptions related to the covenant."<sup>4</sup>

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1 Public Company Accounting Oversight Board (PCAOB), 2007. [Release No. 104-2007-002] Report on 2005 Inspection of KPMG LLP (January 11, 2007) page 5 [www.pcaobus.org](http://www.pcaobus.org) Washington, D.C.: PCAOB.  
2 Public Company Accounting Oversight Board (PCAOB), 2007. [Release No. 104-2006-205] Report on 2005 Inspection of PricewaterhouseCoopers LLP (December 14, 2006) page 3 [www.pcaobus.org](http://www.pcaobus.org) Washington, D.C.: PCAOB.

3 Public Company Accounting Oversight Board (PCAOB), 2007. [Release No. 104-2007-001] Report on 2005 Inspection of Ernst & Young LLP (January 11, 2007) page 4 [www.pcaobus.org](http://www.pcaobus.org) Washington, D.C.: PCAOB.  
4 Public Company Accounting Oversight Board (PCAOB), 2005. [Release No. 104-2005-089] Report on 2004 Inspection of Deloitte & Touche LLP (October 6, 2005) page 8 [www.pcaobus.org](http://www.pcaobus.org) Washington, D.C.: PCAOB.

## 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 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, 2005 and December 31, 2006 (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 15, 2007** to Mark Peecher at [peecher@uiuc.edu](mailto:peecher@uiuc.edu).

## 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 2008. 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., Ira Solomon, 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 15, 2007** to Trevor Stewart at [trstewart@deloitte.com](mailto:trstewart@deloitte.com).

## Using PCAOB Inspection Reports

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The final comment addresses the need for auditors to provide a reasonable basis from which to assess control risk. It also illustrates the relationship between the required level of substantive testing and the assessment of control risk.

"When testing inventory, the Firm applied a controls reliance strategy, which included reliance on IT controls. The Firm's work papers indicated that the results of its tests of the issuer's information technology general controls did not support a conclusion that the issuer's information processing was reliable. The

Firm, however, did not perform any additional procedures to address its finding, nor did it modify its audit strategy."<sup>5</sup>

These examples illustrate how PCAOB inspection reports can be used as a tool to establish the relevance and credibility of topics covered in an auditing class. The inspection reports contain other comments that can be used to establish relevance and credibility to topics such as analytical procedures, related party transactions, the rolling forward of interim work, sample size, reliance on service organizations and more.

5 Public Company Accounting Oversight Board (PCAOB), 2006. [Release No. 104-2006-202] Report on 2005 Inspection of Deloitte & Touche LLP (November 30, 2006) page 12 [www.pcaobus.org](http://www.pcaobus.org) Washington, D.C.: PCAOB.

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## CALL FOR NOMINATIONS

# Notable Contribution to the Auditing Literature Award

The Auditing Section seeks submissions for the Notable Contribution to the Auditing Literature Award. The award will recognize a published work of exceptional merit that has made, or has the potential to make, a direct contribution to auditing or assurance research, education, and practice. To be eligible for submission, a work must have been published during the ten-year period ended December 31, 2006, 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 2008 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 15, 2007** to: Mark Peecher at [peecher@uiuc.edu](mailto:peecher@uiuc.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 2008. 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 15, 2007** to Ray Whittington at [rwhittin@depaul.edu](mailto:rwhittin@depaul.edu).

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## 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 2008. This award is given annually and recognizes outstanding contributions to the field of auditing education. Prior recipients of this award include Larry Rittenberg, Steve Albrecht, Dan Simunic, Ted Mock, Andy Bailey, Ira Solomon, William Kinney, William Felix, Nick Dopuch, Barry Cushing and Larry Rittenburg.

Nominations should be sent via email by **July 15, 2007** to Ray Whittington at [rwhittin@depaul.edu](mailto:rwhittin@depaul.edu).

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## CALL FOR NOMINATIONS

# Nominees for Election as Section Officers

The members of the Auditing Section will elect two officers in Fall 2007, the **Vice President–Academic (President-Elect)** and **Secretary**. Those elected will begin serving their terms in August 2008. Please submit names of individuals you would like to nominate for these positions no later than July 15, 2007. 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 15, 2007**.

Please submit nominations and/or petitions to Ray Whittington, Chairperson, Nominations Committee, by email no later than **July 15, 2007** at [rwhittin@depaul.edu](mailto:rwhittin@depaul.edu).

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## CALL FOR PAPERS

# 2007 ABO Research Conference

### Philadelphia, Pennsylvania — October 19–20, 2007

The 2007 ABO conference will be held October 19–20, 2007 in Philadelphia, PA at the Hilton Philadelphia City Avenue. Consistent with last year's conference there will be a Ph.D. Consortium, Emerging Scholar Sessions, and two papers per session.

**Ph.D. Consortium:** Friday morning will feature a Consortium for Ph.D. students interested in doing behavioral work. Steve Kaplan 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. Ph.D. students will pay no registration fee for the Ph.D. Consortium or the Research Conference. Details will be sent to program directors.

**Emerging scholars submission:** Consistent with last 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:** To encourage high quality discussion and interaction during sessions, 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 James Bierstaker ([james.bierstaker@villanova.edu](mailto:james.bierstaker@villanova.edu)). The manuscript should be submitted in Word 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 June 30, 2007.** 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 James Bierstaker for information about submitting your fee. Selection of conference papers will be announced by August 20, 2007 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.**

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

## Prepared for *The Auditor's Report* (Summer 2007)

By Gary L. Holstrum, Thomas Ray, and Gregory Scates\*\*

This update addresses selected PCAOB standards-setting developments since the Spring 2007 Update that are likely to be of interest to accounting and auditing researchers, educators, and students. These developments include a report on the second-year implementation of Auditing Standard No. 2 (AS2), comments received on a proposed new auditing standard on internal control to replace AS2, a proposed new auditing standard and amendments related to consistency and the GAAP hierarchy, a concept release and Staff Q&As on independence and tax services, the 2007 PCAOB Symposium, and updated status of the Auditing Section's PCAOB Research Synthesis Program.

### PCAOB Report on the Second-Year Implementation of AS2

On April 18 the PCAOB released a report, based primarily on findings from 2006 PCAOB inspections, on the second year of audits of internal control under AS2. The second year of internal control audits occurred after the issuance of a Board policy statement and accompanying staff Q&As (on May 16, 2005) that provided guidance on implementing AS2 by integrating the audit of financial statements and internal control, using a top-down approach, using the work of others, properly assessing risk, and adjusting audit work in response to the level of assessed risk. The 2006 inspections revealed progress in improving the efficiency of internal control audits and in integrating the audit of financial statements and internal control. Compared with first-year audits of internal control, inspectors also observed more instances in which auditors used a top-down approach, focused testing on relevant company-level controls, and made greater use of the work of others. Notwithstanding the improvements noted in the second year, the Board noted that some auditors did not fully utilize the principles of the May 16, 2005 guidance. The Board identified ways in which auditors could further improve the effectiveness and efficiency of their integrated audits of internal control and financial statements. The Board considered these findings when it proposed a new auditing standard that would replace AS2.

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\*\*Gary Holstrum is a consultant in the PCAOB Office of Chief Auditor (formerly PCAOB Associate Chief Auditor and Director of Research). Thomas Ray is PCAOB Chief Auditor and Director of Professional Standards. Gregory Scates is PCAOB Associate Chief Auditor.

<sup>1</sup> Note the hyperlinks to the PCAOB website ([www.pcaobus.org](http://www.pcaobus.org)) and to the Auditing Section website in the online version of the newsletter. 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 2007, Spring 2005, Summer 2005, Fall 2005, Spring 2006, Summer 2006, and Fall 2006 online issues of *The Auditor's Report*.

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

### Comments on Proposed New Internal Control Audit Standard to Replace AS2

In response to PCAOB proposals (issued December 19, 2006) for a new internal control audit standard to replace AS2 and a new standard on using the work of others, the Board received over 170 comment letters, totaling more than 1200 pages, from a variety of respondents. All of the comment letters are available at the PCAOB website under Rulemaking Docket 021. The Board and staff have reviewed the comment letters, as well as input provided by its Standing Advisory Group (see the February 22 SAG meeting briefing paper), and is considering what changes in the proposed standard may be appropriate.

### Proposed New Standard and Amendments Relating to Consistency and the GAAP Hierarchy

On April 3, the Board proposed an auditing standard and related amendments to the interim standards (with a comment deadline of May 18) that would update and clarify the auditors' responsibilities with respect to evaluating and reporting on matters relating to the consistency of the financial statements. These updates and clarifications also would enhance auditor reporting on accounting changes and corrections of misstatements by more clearly distinguishing between these events. The proposed amended standard on consistency is in response to the FASB's issuance of Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*. The Board also proposed to remove the hierarchy of generally accepted accounting principles (GAAP) from its interim auditing standards in light of the proposal by the FASB to place the hierarchy in the accounting standards. Because the GAAP hierarchy identifies the sources of accounting principles and the framework for selecting principles to be used in preparing financial statements, these requirements are more appropriately located in the accounting standards.

### Concept Release and Staff Q&As on Independence and Tax Services

On April 3, the Board issued a concept release to solicit comment regarding one part of Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*, and the PCAOB Staff issued Q&As on ethics and independence rules concerning independence, tax services, and contingent fees.

### 2007 PCAOB Symposium and the Auditing Section's PCAOB Research Synthesis Program

The 2007 PCAOB Symposium (on April 19–20) explored areas of mutual interest between the PCAOB and the academic community and focused on research and education issues related to the mission of the PCAOB. A major part of the Symposium program concerned ways that the work of the Auditing

(continued on page 11)

## PCAOB Standards-Setting

(continued from page 10)

Section's ten PCAOB Research Synthesis Teams could potentially be used in PCAOB standards-setting projects, in developing fraud (and earnings manipulation) prediction models for potential use in PCAOB inspections, and in cost-effectiveness assessments. The table below describes the status of each of the

ten research synthesis projects and the online version of the newsletter includes hyperlinks to executive summaries of the reports of each of the nine original research synthesis teams. The Symposium also included discussion of the competence demands for future auditors of public companies and the implications for auditing education, continuing professional development, and registered firm quality control.

### Research Synthesis Teams

<b>Project Team</b>	<b>Team Leader</b>	<b>Project Team Members</b>	<b>Project Status (as of 4-24-2007)</b>
1. Audit Confirmations	Randy Elder (Syracuse)	Paul Caster (Fairfield) Diane Janvrin (Iowa State)	Completed report. Paper presented at AAA Auditing Section Midyear Meeting in January 2007.
2. Audit Firm Quality Control	Jean Bedard (Bentley College)	Donald Deis (Texas A&M – Corpus Christi) Greg Jenkins (Virginia Tech) Mary Curtis (University of North Texas)	Completed report. Report divided into segments: (1) Firm culture/governance paper conditionally accepted for publication in <i>Behavioral Research in Accounting</i> (2) Risk monitoring paper submitted for publication.
3. Audit Reporting Model	Bryan Church (Georgia Institute of Technology)	Susan McCracken (University of Toronto) Shawn Davis (Washington University)	Completed report.
4. Auditor Risk Assessments	Dana Hermanson (Kennesaw)	Bob Allen (Utah) Tom Kozloski (Wilfrid Laurier) Bob Ramsay (Kentucky)	Completed report. Article published in <i>Accounting Horizons</i> in June 2006.
5. Communications with Audit Committees	Arnie Wright (Boston College)	Jeff Cohen (Boston College) Lisa Gaynor (South Florida) Ganesh Krishnamoorthy (Northeastern)	Completed report. Article accepted for future publication in <i>Accounting Horizons</i> .
6. Engagement Quality Review	Arnie Schneider (Georgia Institute of Technology)	William Messier (Georgia State)	Completed report. Portions of study accepted for publication in <i>Auditing: A Journal of Practice &amp; Theory</i> .
7. Fair Value	Roger Martin (Virginia)	Jay Rich (Illinois State) Jeff Wilks (Brigham Young)	Completed report. Article published in <i>Accounting Horizons</i> in September 2006.
8. Financial Fraud	Chris Hogan (Michigan State)	Zabi Rezaee (Memphis) Dick Riley (West Virginia) Uma Velury (Delaware)	Completed report. Will be submitting revised report for publication.
9. Related Party Transactions	Elaine Henry (Miami)	Elizabeth Gordon (Rutgers) Tim Louwers (James Madison) Brad Reed (Southern Illinois)	Completed report. Article published in <i>Accounting Horizons</i> in March 2007. Follow-on study presented at Auditing Section Midyear Meeting in January 2007.
10. Cost-Benefit Research	Joe Carcello (Tennessee)	Bill Kinney (Texas) Joe Weber (MIT) Mike Willenborg (Connecticut)	Team formed by Auditing Section in late 2006. Discussed preliminary plans at 2007 PCAOB Symposium.

## HAVE YOU SEEN...?

**Sudip Bhattacharjee, Virginia Tech; Duane Brandon, Auburn University;  
Jennifer Mueller, Auburn University; and  
Reed Smith, Indiana University–Purdue University Indianapolis**

**“Audit Firm Appointments, Audit Firm Alumni, and Audit Committee Independence,”** by C. S. Lennox and C. W. Park. *Contemporary Accounting Research* (Volume 24, No. 1, 2007): 235–258.

Previous research finds that alumni have ties with their former audit firms and are more inclined to provide economic benefits to former firms if they have stronger ties. If the alumnus is a senior corporate officer, the alumnus may benefit his former firm by recommending that the company appoint the firm as its auditor. However, the company’s audit committee may be concerned that officer–auditor ties threaten audit quality. Therefore, an independent audit committee may not sanction the appointment of the officer’s former firm. This study finds that companies appoint officers’ former firms more often than they appoint alternative audit firms. However, companies are less likely to appoint officers’ former firms if audit committees are more independent. This suggests that independent audit committees strengthen audit quality by deterring affiliations between audit firms and officers.

**“A Study of Whistleblowing among Trainee Auditors,”** by N. Brennan, and J. Kellya. *The British Accounting Review* (Volume 29, No. 1, 2007): 61–87.

This paper investigates some of the factors that influence the propensity or willingness to blow the whistle among trainee auditors. Trainee auditors (of the Institute of Chartered Accountants in Ireland just about to sit their finals) reported their confidence in internal and external reporting structures in their firms. The trainees also provided their willingness to challenge an audit partner’s inappropriate response to concerns raised during the audit. Finally, audit trainees responded concerning the influence of legal protection on their likelihood of whistleblowing. Results indicate that where firms have adequate formal structures for reporting wrongdoing, trainee auditors are more likely to report wrongdoing and have greater confidence that this will not adversely affect their careers. Training increases this confidence. Trainee auditors also express a willingness to challenge an audit partner’s unsatisfactory response to wrongdoing. The study reports significant differences in attitudes depending on whether the reports of wrongdoing were internal or external. The willingness to report wrongdoing externally reduces for older (aged over 25) trainees.

**“The Impact of Auditor-Client Relationships on the Reversal of First-Time Audit Qualifications,”** by M. J. Meyer, J. T. Rigsby, and J. Boone. *Journal: Managerial Auditing Journal*. (Volume 22, No. 1, 2007): 53–79.

This study examines the linkage between auditor tenure and audit quality. Using attachment theory, auditor tenure can be viewed as but one measure of the attachment between auditors

and clients. The authors use a number of measures of both interpersonal and interorganizational attachment between auditors and their clients. The authors track the event history of a sample of firms from the issuance of a first time audit qualification for going concern and non-going concern contingencies. They find that interpersonal and interorganizational attachment has a significant impact on those opinion decisions that require more auditor judgment (i.e., going concern).

**“Auditor Conservatism and Audit Quality: Evidence from IPO Earnings Forecasts,”** by P. J. Lee, S. J. Taylor, and S. L. Taylor. *International Journal of Auditing*. (Volume 10, No. 3, 2006): 183–199.

The authors investigate the relation between a proxy for differential audit quality and both the (ex post) accuracy and conservatism of audited earnings forecasts provided in Australian initial public offering (IPO) prospectuses. For their period, most Australian IPO prospectuses include an earnings forecast (not ‘voluntary’), and the auditor must be satisfied prior to signing off on the prospectus. After controlling for other factors associated with forecast error, they find some evidence that forecasts audited by Big 6 auditors prove more accurate than those audited by a non-Big 6 auditor, although this result is not robust across alternative measures of forecast accuracy. In contrast, they find significantly less optimistic bias for forecasts associated with Big 6 auditors that is robust to alternative measures of forecast bias.

**“Andersen and the Market for Lemons in Audit Reports,”** by S. E. Kaplan, P. B. Roush, and L. Thorne. *Journal of Business Ethics*. (Volume 70, No. 4, February, 2007): 363–373.

In this paper, the authors consider the ethical and economic context that existed and facilitated Andersen’s failure. The analysis is grounded in Akerlof’s (1970) theory of the Market for Lemons. Consistent with Akerlof’s model, they consider the appropriateness of the countervailing mechanisms that existed at the time of Andersen’s demise that appeared to have effectively failed in counteracting Andersen’s ethical shortcomings. They also assess the appropriateness of the remedies proposed by the Sarbanes–Oxley Act of 2002 (SOA) to ensure that similar ethical lapses will not occur in the future. They find that the SOA regulatory reforms should counteract some of the necessary conditions of the Lemons Model, and thereby mitigate the likelihood of audit failures. They contend that the effectiveness of the SOA critically depends upon the focus and attention of the Public Companies Accounting Oversight Board (PCAOB) towards assessing the ethical climates of public accounting firms.

## HAVE YOU SEEN...?

**Sudip Bhattacharjee, Virginia Tech; Duane Brandon, Auburn University;  
Jennifer Mueller, Auburn University; and  
Reed Smith, Indiana University–Purdue University Indianapolis**

**“Do Auditor Provided Non-audit Services Improve Audit Effectiveness?”** by J. R. Joe and S. D. Vandervelde, *Contemporary Accounting Research*, (Summer 2007): Forthcoming.

This study examined whether auditors are able to transfer knowledge from a nonaudit task to an audit task to determine whether performing both tasks potentially improves audit effectiveness. Results indicate that auditors who completed the nonaudit task transferred the knowledge about client risks and provided higher audit risk assessments than auditors who only reviewed the nonaudit workpapers. There was no evidence of knowledge transfer when the same nonaudit workpapers were attributed to a member of his or her firm or another audit firm, suggesting that the same personnel must work on both engagements to obtain a positive knowledge transfer from nonaudit services to audit services. However, results also indicate that auditors might exhibit less professional skepticism for clients when their firm performs nonaudit services.

**“Alternative Work Arrangements and Perceived Career Success: Current Evidence from the Big Four Firms in the U.S.,”** by E. N. Johnson, D. J. Lowe and P. M.J. Reckers, *Accounting, Organizations and Society*, In Press.

This study examines the influences of alternative work arrangements, subordinate gender, and supervisor attitudes and beliefs regarding alternative work arrangements on performance evaluation judgments in public accounting. Experienced audit professionals evaluated a hypothetical subordinate’s performance in an experimental setting. Results indicate that subordinate gender and alternative work arrangements participation were significantly related to supervisors’ perceptions of the subordinate’s career success. The study also found that individual differences in supervisors’ attitudes and beliefs regarding alternative work arrangements were systematically related to their performance evaluation judgments, and indicate that cultural support for alternative work arrangements is not uniform among experienced Big Four professionals.

**“Don’t Believe Everything You Think: The 6 Basic Mistakes We Make in Thinking,”** by T. Kida, (Prometheus Books, 2006).

This book discusses how to recognize faulty thinking and develop the necessary skills to become a more effective problem solver. The author identifies six basic mistakes that lead decision-makers to unconsciously accept false ideas. The book illustrates these tendencies with numerous examples that demonstrate how easily we can be fooled into believing something that isn’t true. The book offers an introduction to the psychology of judgment and decision-making along with the difference between scientific and pseudoscientific thinking. The decision errors discussed in this book are particularly relevant to the audit function, which relies heavily on judgment and decision-making.

**“Auditors’ Memory of Internal Control Information: The Effect of Documentation Preparation versus Review,”** by L. S. Kopp and J. L. Bierstaker, *Advances in Accounting Behavioral Research*, (Volume 29, 2006): 27–50.

The authors investigate the amount of auditor attention given to information during internal control documentation procedures, and the effect of this attention on internal control information acquisition and risk assessment. Results suggest that the audit seniors who completed an internal control questionnaire retained significantly more internal control information than audit seniors who reviewed an internal control questionnaire completed by another individual. This result held when separately examining the internal control strengths and weaknesses. In addition, audit seniors who completed an internal control questionnaire-assessed control risk at a level comparable to the control risk assessments of audit managers in the same firm.

# ASB Update as of May 2007

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

While the ASB has a number of important technical projects underway, this update focuses on three initiatives of particular relevance to the Auditing Section: the joint ASB/IAASB/AAA research initiative and the ASB harmonization and clarity initiatives. Information regarding the status of the various technical projects underway is available at the AICPA's Web site.

## **ASB/IAASB/AAA Auditors' Report Research Initiative**

As indicated in previous columns, the ASB and IAASB had initially planned to fund as many as two research projects designed to gain a better understanding of users' perceptions of the unqualified auditor's report and explore ways in which the report might be revised to communicate the auditor's opinion more clearly. However, the ASB and IAASB were very pleased with the quality of the eleven proposals submitted in response to the RFP last fall, and four proposals made our "finalist list." At that point the Boards decided to fund as many of those top four projects as possible. The process of procuring additional funding took longer than expected, partially due to questions related to the research sponsorship role of the newly created AICPA Center for Audit Quality. However, it appears that we have cleared the unexpected hurdles, and the process to obtain the Boards' final approval has moved forward. This process has nearly been finalized, and I anticipate that the four finalist research teams will be notified of the decision shortly after this update is published. The ASB and IAASB continue to be committed to and excited about this project and the insights that will come from it. Be sure to watch for announcements by the Auditing Section on this matter in the near future.

## **ASB Harmonization and Clarity Initiatives**

The mission of the ASB is to develop and communicate comprehensive performance, reporting, and quality control standards, as well as practice guidance to enable auditors of non-issuers to provide high quality, objective audit and attestation services at a reasonable cost in the best interests of the profession and the beneficiaries of those services, with the ultimate purpose of serving the public interest.

In 2004, the ASB considered how to best meet its mission in light of the creation of the Public Company Accounting Oversight Board (PCAOB) and the increasingly widespread acceptance of the International Standards on Auditing (ISAs) issued by the IAASB. The ASB took the first step by developing a plan to harmonize U.S. generally accepted auditing standards (GAAS) with the international standards while also avoiding the creation of unnecessary differences between GAAS and PCAOB standards.

The ASB's plan to harmonize GAAS with the ISAs includes harmonizing its standard-setting agenda with that of the IAASB and using the ISAs as a base for developing new standards or revising existing standards. The ISA base is adapted only when modifications are necessary to better serve the needs of U.S. users of audited financial statements of non-issuers, or when modifications are appropriate for U.S. legal and regulatory reasons.

**What has the ASB done so far?** Since formalizing its plans to harmonize GAAS with the ISAs, the ASB has issued several standards that are either based on the ISAs or were developed jointly with the IAASB. The most notable standards are the risk assessment suite of standards (Statements on Auditing Standards

(SAS) Nos. 104 -111). The risk assessment standards are the culmination of a cooperative effort between the IAASB and the ASB that started long before the ASB's formal plans to harmonize GAAS with the ISAs. Since 2004, using the ISAs as a base, the ASB also issued SAS No. 103, Audit Documentation, (AU sec. 339) and SAS No. 114, The Auditor's Communication with Those Charged with Governance, (AU sec. 380).

Interaction between the ASB and the IAASB is increasing, and several additional projects that use the ISAs as a foundation are underway. These projects include revision of the auditor's report to more clearly explain the auditor's and management's responsibilities, revision of the related parties standard to apply a risk-based approach, and revision of the use of specialists and management representations standards.

**What's Next?** The IAASB is currently involved in a significant effort to clarify the ISAs. The purpose of that effort is to address concerns about the clarity of the ISAs as well as their length and complexity. The ASB has been monitoring the progress of the IAASB and has concluded that by following a similar path and issuing standards in a different format and style from those traditionally followed, the ASB could more effectively achieve its mission. The ASB believes that applying new "clarity" conventions to new and existing standards will make them more understandable and capable of more consistent application. The Board will soon decide how best to meet its objective of harmonizing GAAS with the ISAs in the context of the clarity project. In doing so, the ASB is seeking input with respect to certain issues related to the structure, format, and style of the standards.

**Discussion Paper on Clarity of Standards.** The ASB recently issued a discussion paper titled "*Improving the Clarity of ASB Standards.*" The Board seeks feedback on the following issues, which are laid out in the discussion paper:

- Establishing objectives for each of the standards that provide a conceptual framework for the application of professional judgment, and the obligation related to the objective.
- Making structural and drafting improvements to make the standards easier to read and understand.
- Including special considerations in the audits of public sector entities and small entities in the explanatory material of a statement on auditing standards.
- Establishing a glossary of terms that would be presented in a separate section of the Codification of Statements on Auditing Standards.

The discussion paper is available for download from [www.aicpa.org/download/auditstd/Clarity\\_of\\_ASB\\_Standards\\_Discussion\\_Memo.pdf](http://www.aicpa.org/download/auditstd/Clarity_of_ASB_Standards_Discussion_Memo.pdf).

The ASB asks readers to study the proposed new style and the format of the standards and comment on their preferences. The comment period on the proposals ends on June 15, 2007. I strongly urge members of the Auditing Section to take an active interest in reading and commenting on this discussion paper as well as the harmonization and clarity initiatives in general.

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Note: Some of the above content was adapted with permission from "ASB's Road to Harmonization," an article by Sharon Walker published in the Winter 2007 issue of *In Our Opinion*, the newsletter of the AICPA audit and attest standards team.

# HAVE YOU SEEN THESE INSTRUCTIONAL RESOURCES...?

**By the 2006–2007 Education Committee of the Auditing Section of the AAA  
Jay C. Thibodeau, Chair, Bentley College; Richard Riley, University of West Virginia;  
Greg Jenkins, Virginia Tech University; Pamela Roush, Central Florida University**

<b>Format</b>	<b>Title</b>	<b>Date</b>	<b>Source</b>	<b>Description</b>	<b>How to Obtain</b>
PDF	Model Curriculum for Fraud and Forensic Accounting Education	February 2007	DOJ's National Institute of Justice (sponsoring organization)	This report provides guidance to educators wanting to develop fraud and forensic accounting courses, tracks, minors, and majors.	<a href="http://www.ncjrs.gov/pdffiles1/nij/grants/217589.pdf">http://www.ncjrs.gov/pdffiles1/nij/grants/217589.pdf</a>
Text	<i>Forensic Accounting</i>	2008	William Hopwood, Jay Leiner and George Young	This textbook covers the accounting and legal fundamentals for forensic accounting, tools and techniques and the application of those tools and techniques.	McGraw Hill- Irwin
PDF	Report on the Second-Year Implementation of Auditing Standard No. 2	April 18, 2007	PCAOB	This report provides a summary of inspection results from more than 250 audits of ICFR.	Available on the PCAOB website ( <a href="http://www.pcaobus.org/">http://www.pcaobus.org/</a> )
Journal Article	Internal Control Guidance Not Just a Small Matter	March 2007	<i>Journal of Accountancy</i>	This article summarizes the guidance issued by COSO for small business in implementing section 404 requirements.	March, 2007 issue of <i>Journal of Accountancy</i>
PDF	Private Companies Reaping the Benefits of Sarbanes-Oxley	March 2007	Leader Publishing Group	This article provides an overview of how small private businesses are benefiting from the requirements of Sarbanes-Oxley.	<a href="http://www.pwc.com/extweb/pwcpublishations.nsf/docid/CEA8FB685C018B26852572AA0052CEDF">http://www.pwc.com/extweb/pwcpublishations.nsf/docid/CEA8FB685C018B26852572AA0052CEDF</a>
Journal Article	The Top Audit Movies of All Time (by Michael Jacka)	April 2007	Institute of Internal Auditors	This is a very short spoof that cleverly converts descriptions of very famous movies into reviews of "the top audit movies." If you do not get a chuckle out of this one, then you really need to find yourself a sense of humor!	April 2007 <i>Internal Auditor</i>
Book	<i>Key Controls: The Solution for Sarbanes-Oxley Internal Control Compliance</i> (by James Brady Vorhies)	2004	Institute of Internal Auditors	This book is intended to educate management on how to implement Sections 404, 302 and 906 of the Sarbanes-Oxley Act 2002 and explain why the key controls process is appropriate for assisting in compliance with the act. It is also suitable for teaching internal controls and the Sarbanes-Oxley Act in an Internal Audit Classroom.	May be ordered on the Institute of Internal Auditors' website: <a href="http://www.theiia.org">www.theiia.org</a>
Journal Article	Auditing Related Party Transactions (by E.A. Gordon, E. Henry, T.J. Louwers, and B.J. Reed)	March 2007	American Accounting Association	This article examines research relevant to auditing related party transactions in response to the PCAOB's call for a synthesis of research on related party transactions. This article is easily understood and would be a great source for teaching students about related party transactions.	March 2007 <i>Accounting Horizons</i>

# HAVE YOU SEEN THESE INSTRUCTIONAL RESOURCES...?

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Greg Jenkins, Virginia Tech University; Pamela Roush, Central Florida University

Format	Title	Date	Source	Description	How to Obtain
Journal Article	Identifying and Evaluating Audit Issues: The Case of VITALOGISTICS (by Steven Asare and Arnie Wright)	February 2007	American Accounting Association	This article describes a case that can be used in auditing to help students consider a number of different phases in the audit process, including client acceptance, planning, execution and reporting. The case provides professors with a very efficient tool to help achieve significant results in the classroom.	February 2007 <i>Issues in Accounting Education</i>
Monograph	COSO 1992 Control Framework and Management Reporting on Internal Control: Survey and Analysis of Implementation Practices (by Parveen Gupta)	2006	Institute of Management Accountants	This monograph provides an outstanding summary and analysis of implementation issues that have arisen in the post-Sarbanes financial reporting environment. The monograph provides much detail that professors can extract and present in the classroom.	May 2007 <i>Journal of Accountancy</i>
Journal Article	What is your Fraud IQ? (by Joseph T. Wells)	May 2007	<i>Journal of Accountancy</i>	This article is presented in the form of a 10 question multiple choice quiz about fraud, complete with annotated answers to each question.	May 2007 <i>Journal of Accountancy</i>

## American Accounting Association

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