

Audit Research Summaries

Zoals aangekondigd in de Editorial van het januari/februari nummer, zullen wij regelmatig enkele "Audit Research Summaries" (ARS) uit de database van de American Accounting Association in het MAB opnemen (www.auditingresearchsummaries.org).

Dat audit research actueel en belangrijk is blijkt uit de uitnodiging die in februari 2016 onder audit onderzoekers is verspreid door de Foundation for Auditing Research (FAR, (<http://www.foundationforauditing-research.org>)). In de uitnodiging wordt opgeroepen onderzoeksvoorstellen in te dienen. Voorwaarden zijn onder andere dat onderzoekers een gedegen track-record hebben, met andere woorden gepubliceerd hebben in gerenommeerde internationale tijdschriften en ten minste een van de onderzoekers geaffilieerd is met een Nederlandse universiteit. De foundation zal vervolgens voor een aantal voorstellen middelen in de vorm van financiering of data ter beschikking stellen. Deze voorstellen moeten bij voorkeur betrekking hebben op een van de volgende onderzoeksgebieden:

1. *Audit inputs, such as audit team composition and interaction, the personal characteristics of audit partners and staff, their workload, and the knowledge, skills, and experience of auditors in relation to the complexity and context of the audits they are currently performing;*
2. *The audit process of planning, collection, and interpretation of audit evidence, which may include risk assessment, audit methodologies and tools, the intrinsic quality of audit evidence, the nature, timing, and extent of audit procedures, and time and budget (pressures);*
3. *Auditors' intentions and behaviors, such as judgment and decision making, professional skepticism, partner involvement throughout the audit, dysfunctional auditor behavior, and auditor-client negotiations regarding audit findings;*
4. *Audit outcomes, which may include communication, such as the usefulness of audit reporting and the economic consequences of audit outcomes;*
5. *Audit firm organization, governance, and culture, which may include governance structures, benefit schemes, quality control systems and indicators, firm and team culture, and the roles of firm networks.*

Met betrekking tot deze gebieden zijn in de ARS diverse overzichtsartikelen opgenomen. Dat betreft artikelen die een mooi overzicht geven van onderzoek dat op een bepaald gebied heeft plaatsgevonden. Dergelijke overzichtsartikelen zijn de voor de praktiserend accountant de moeite waard om kennis van te nemen. Ter illustratie volgen onderstaand drie samenvattingen van overzichtsartikelen op het terrein van respectievelijk big data, fraude en materialiteit.

Big Data in Accounting: An Overview.

research summary posted September 21, 2015 by Jennifer M Mueller-Phillips, tagged [01.0 Standard Setting](#), [01.01 Changes in Reporting Formats](#), [01.02 Changes in Audit Standards](#), [08.0 Auditing Procedures – Nature, Timing and Extent](#), [08.09 Impact of Technology on Audit Procedures](#), [09.0 Auditor Judgment](#)

 92 Views

Title: Big Data In Accounting: An Overview.

Practical Implications: The availability of Big Data will precipitate substantive changes in accounting education, research, and practice. In education, in particular accounting and auditing, the use of Big Data will increase the statistical and IT content in curricula, probably breaking the current set of limitations represented in the CPA exam. Research in the more traditional fields in accounting, such as capital markets research, will benefit from dimensional increases in data availability and will be conditional on improvements of the researcher's skill sets in areas such as modeling, statistics, and text mining. Practice, in particular internal audit departments, will be the leading facilitator of accounting Big Data usage, while attempting to keep abreast or in sync with the developments in corporate data utilization in fields like marketing, supply chain, and customer services.

Citation: Vasarhelyi, M. A., A. Kogan, and B. M. Tuttle. 2015. Big Data in Accounting: An Overview. *Accounting Horizons* 29 (2): 381-396.

Keywords: analytics, audit judgment, enterprise data ecosystem, reporting, standards, storage

Purpose of the Study: The term Big Data is fairly new but seems to be applied in almost every area of human activity at the moment. It is not defined in the rigorous meaning of the word, and it is usually used under the assumption that the readers understand it at the intuitive level. The reason for this popularity is the exponentially growing amount of information made available by developments in computing and telecommunications technology, particularly the internet and environmental sensing. This paper sheds light on the meaning of Big Data in the accounting and auditing domains.

Design/Method/Approach: This article is a commentary.

Findings:

- The definition of Big Data is conditional on the environment being used.
- Processing needs are nonlinear with the size of data. Even small datasets may be computationally difficult if models are complex.
- There is a progressive extension of the feasible dataset. Inclusion of sources is mainly an economic and legal issue and not one of feasibility.
- Newly included data structures contain a wide set of not previously determined/used parameters, which by themselves may be informational.
- Extended, nontraditional data sources may substantively change the domains of accounting and auditing.
- Linkages of traditional extended data, as found in ERPs, to new sources of data may provide very strong confirmatory evidence for economic activity.
- Accounting, auditing, and management extensions into Big Data usage overlap and present powerful opportunities in the next decade but also the re-conceptualization of functions in an age of computer intelligence and automation.

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Category: Auditing Procedures - Nature - Timing and Extent, Auditor Judgment, Standard Setting

sub-category: Changes in Audit Standards, Changes in Reporting Formats, Changes in Reporting Formats, impact of Technology on Audit Procedures
Confirmation - Process and Evaluation of Responses

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research summary

A Synthesis of Fraud-Related Research

research summary posted February 20, 2015 by [Jennifer M Mueller-Phillips](#), last edited April 1, 2015, tagged [06.0 Risk and Risk Management, Including Fraud Risk](#), [06.01 Fraud Risk Assessment](#)

 143 Views

Title: A Synthesis of Fraud-Related Research

Practical Implications: To facilitate the development of auditing and other professional standards and to inform regulators of insights from the academic literature, the Auditing Section of the AAA decided to develop a series of literature syntheses for the Public Company Accounting Oversight Board (PCAOB). This paper is authored by one of the research synthesis teams formed by the Auditing Section under this program. The literature review is organized around a model that considers fraud from the perspective of the auditor. The model incorporates the fraud triangle, which auditors include in their assessment of the likelihood of fraudulent financial reporting. In addition, we examine auditors' processes of assessing the existence and effectiveness of the client's anti-fraud measures including corporate governance mechanisms and internal controls, and their consideration of possible fraud schemes and concealment techniques. This synthesis should be relevant to regulators, practitioners, and academics.

Citation: Trompeter, G., T. Carpenter, N. Desai, K. Jones, and R. Riley. 2013. A Synthesis of Fraud-Related Research. *Auditing: A Journal of Practice & Theory* 32 (Supplement 1): 287-321.

Keywords: fraud, auditing, literature review, SAS 99

Purpose of the Study: This paper was prepared as a part of the series of literature syntheses sponsored by the Auditing Section of the American Accounting Association (AAA). As such, this paper integrates and discusses implications of academic research on fraudulent financial reporting, particularly as it applies to the audit. We synthesize academic literature related to fraudulent financial reporting with dual purposes: (1) to better understand the nature and extent of the existing literature on financial reporting fraud, and (2) to highlight areas where there is a need for future research. We examine accounting and auditing research as well as related disciplines including criminology, ethics, finance, organizational behavior, psychology and sociology. We synthesize the research around a model that illustrates the auditors' approach to fraud. The model incorporates auditors' use of the fraud triangle (i.e., management's incentive, attitude, and opportunity to commit fraud), their assessment of the existence and effectiveness of the client's anti-fraud measures (e.g., corporate governance mechanisms and internal controls), and their consideration of possible fraud schemes and concealment techniques when making an overall fraud risk assessment of the client. The model further illustrates how auditors can incorporate this assessment into an overall strategy to detect fraud by implementing appropriate fraud-detection procedures. We summarize the recent literature of each component and suggest avenues for future research.

Design/Method/ Approach: We organize our literature review around an expanded fraud model that considers fraud from the perspective of the auditor. We review accounting and auditing literature related to fraud as well as approximately 60 journals from various fields including criminology, ethics, finance, organizational behavior, psychology, and sociology. Our purpose is to broaden our perspective of fraud and to gain insights from other disciplines about the dynamics of fraud that may be useful to auditors, standard setters, and academics.

Findings:

- The PCAOB finds that auditors have difficulty responding when fraud risk is high. Whether auditors simply fail to respond with appropriate fraud-related audit techniques or whether auditors do not know how to respond with appropriate testing is an important area for future research.
- Little research has been done in identifying fraud examination tools and techniques that can be used by auditors to detect fraud once initial red flags are identified. Future research is important in this area.
- Existing research has established the relationship between incentives and earnings management and fraud. Future research could address the extent to which, and the conditions under which, incentives might result in earnings management through aggressive accruals, biases in fair value estimates, and structured transactions.
- There has been a great deal of literature focused on various aspects of the fraud triangle. However, there is still interest in learning more about the factors that affect the likelihood that an individual will engage in fraud. The fraudster's assessment of anti-fraud measures, particularly controls, with respect to the probability (perception) of detection is also important.

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Category: Risk & Risk Management - Including Fraud Risk

Sub-category: Fraud Risk Assessment

Home: <http://www.auditingresearchsummaries.org>

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A Review and Integration of Empirical Research on...

research summary posted April 13, 2012 by [The Auditing Section](#), last edited May 25, 2012, tagged [09.0 Auditor Judgment](#), [09.01 Audit Scope and Materiality Judgments](#), [10.0 Engagement Management](#), [10.02 Materiality and Scope Decisions](#)

 382 Views

Title: A Review and Integration of Empirical Research on Materiality: Two Decades Later

Practical Implications: The results of the studies documented in this review suggest that there is a great deal of variability in the approaches taken by firms for establishing materiality. Such differences in materiality methods can affect both the effectiveness and efficiency of audits. For example, if firms differ in how they allocate materiality to financial statement accounts, then the scope of the work could differ across audits with similar characteristics. Auditors also appear to differ in terms of the factors they consider for determining the materiality of internal control weaknesses, suggesting that auditors may need more structured criteria to make materiality judgments about internal control weaknesses. Materiality judgments are influenced by authoritative guidance, suggesting that standard setters and audit firms have the ability to influence auditors' materiality judgments by providing auditors with specific guidance.

Citation: Messier, Jr., W.F., N. Martinov-Bennie, and A. Eilifsen. 2005. A review and integration of empirical research on materiality: Two decades later. *Auditing: A Journal of Practice and Theory* 24 (2): 153-187.

Keywords: Materiality, materiality bases, quantitative, qualitative materiality factors

Purpose of the Study: Materiality has been and continues to be a topic of importance for auditors. There has recently been renewed interest in the concept of materiality, motivated by concerns at the Securities and Exchange Commission, and the Auditing Standards Board and as evidenced by the Sarbanes-Oxley Act and the issuance of proposed standards on materiality by the International Auditing and Assurance Standards Board. Additionally, new guidance has been issued recently in response to some of the materiality concerns, including Staff Accounting Bulletin (SAB) No. 99, Statements on Auditing Standards (SAS) No. 89, and SAS No. 90. Due to the continued importance of understanding the concept of materiality, this paper reviews and integrates the empirical research on materiality since 1982. Based on the review of the literature, the authors suggest some implications of this research for audit practice and research.

Design/Method/ Approach: This paper reviews the literature related to materiality that has been published since 1982. The authors divide their discussion of the research into archival studies and experimental studies. Archival studies use audit firm manuals, data from auditor working papers, or published financial statement data and auditor reports to examine materiality decisions. Experimental studies examine materiality judgments and decision-making of financial statement users, auditors and others (e.g., judges/lawyers).

Findings: Archival Studies: The primary findings from archival studies are categorized based on whether they were obtained from auditor-related sources (e.g., auditor working papers) or public sources (e.g., financial statements).

Auditor Related Sources (i.e., firm manuals and working papers)

- There appear to be differences in the way firms establish planning materiality as well as differences in the extent of guidance provided by firms for setting planning materiality and tolerable misstatement.
- Auditor judgment plays a significant role in setting planning materiality
- Some version of income continues to be the major factor in determining the materiality of a misstatement (e.g., misstatement as a percent of net revenue).

Public Sources (i.e., financial statements, disclosures, and auditors' reports)

- Public sources also indicate that income continues to be the most significant factor in auditors' materiality and disclosure decisions. This is the case regardless of the type of reporting item or disclosure in question.
- Similarly, the choice to modify the auditor's report seems consistent with traditional effects of the item on income.

Experimental Studies:

- Experimental studies find that net income continues to be the most important factor in determining the materiality of misstatements, consistent with the findings of archival research. A number of studies find that the second most important materiality factor is the effect of the misstatement on a company's earnings trend.
- A number of qualitative factors were found to affect materiality decisions, including the auditors' perceptions of management and management's integrity, audit committee effectiveness, audit firm culture and whether a misstatement will be recognized in the financial statements or the footnotes.
- Materiality judgments vary by experience and firm type. Experience appears to lead to greater consensus in materiality judgments and greater scrutiny of materiality judgments relating to discretionary, non-routine transactions.

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Category: Auditor Judgment, Engagement Management

Sub-category: Audit Scope & Materiality Judgements, Materiality & Scope Decisions

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