THE EFFECT OF OFF-SITE AUDIT WORK ON THE JUDGMENT QUALITY AND DEVELOPMENT OF STAFF AUDITORS

by

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ABSTRACT

This study experimentally examines the effects of recent increases in off-site audit work (e.g., task-specific experience and social environment) on the judgment quality and development of staff auditors. First, I examine how preparing testwork (i.e. task-specific experience) affects the subsequent performance of staff auditors' workpaper review. Second, I consider how the physical presence or absence (i.e., social environment) of a high-ranking auditor affects the judgment quality of staff auditors. I provide evidence that staff auditors, who have the opportunity to prepare basic audit tasks prior to reviewing workpapers, identify more mechanical seeded errors than auditors who only review workpapers. Further, I find that the presence of a high-ranking auditor improves the performance of staff auditors in completing a subsequent workpaper review task, especially when the participants prepare testwork prior to reviewing workpapers. The results of this study highlight the practical implications of the current audit environment; as well as contributing to the emerging literature examining off-site audit work.

DEDICATION

This dissertation is dedicated to my husband, Jesus, and our boys, Joshua and Jonah. The three of you are my guiding light and driving force; I would be lost without you.

LIST OF ABBREVIATIONS AND SYMBOLS

PCAOB	Public Company Accounting Oversight Board
HBI	Halcyon Board, Inc.
KCI	Kinetic Canoes, Inc.
CFQ	Cognitive Failures Questionnaire
ANOVA	Analysis of Variance
SD	Standard deviation
df	Degrees of freedom
F	Computed value of the f-statistic
p-value	Probability of test statistic
>	Greater than
=	Equal to

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CHAPTER 1

INTRODUCTION

Advances in technology (e.g., email, the Internet, cloud computing and electronic audit software) have yielded increases in off-site audit work (Pérez et al. 2002; Brazel et al. 2004). The increase in off-site audit work has resulted in fundamental changes to audit teams, specifically, which members perform certain types of work and the physical proximity of team members to other auditors. This study examines two factors associated with these changes: (1) task-specific experience and (2) social environment.

Traditionally, audit teams have been formed based on an apprenticeship model, which results in staff auditors learning auditing fundamentals through experience. However, the off-site work of auditors results in two changes that potentially affect audit quality. First, because rudimentary tasks are increasingly completed by service centers, the apprenticeship model has been altered by of the decrease in hands-on learning opportunities for on-site novice auditors. Rudimentary tasks include, but are not limited to, cash and receivables confirmations, financial statement tie-outs, investment securities price testing, and analytical services (see further discussion in Chapter 2). For the purposes of this study, I define the use of services centers as the practice of engaging individuals in any geographically distant location to prepare basic audit tasks. I do not distinguish between direct (i.e., firm employee) and indirect hires (i.e., sub-contracting/outsourcing), nor do I distinguish between the geographic locations of domestic (i.e., on-shoring) and abroad (i.e., offshoring).

Second, technological advances enable experienced auditors to work remotely (Agoglia et al. 2009; Carson and Dowling 2012), which increases the likelihood that on-site auditors conduct their work without the physical presence of high-ranking auditors (Westermann et al. 2015) and further alters the apprenticeship model. Taken together, these two factors (i.e., task-specific experience and social environment) affect how novice auditors develop expertise. The use of service centers, which allows for access to lower-cost labor, is rapidly increasing across large international audit firms (Daugherty et al. 2012). In some instances, as much as 20 percent of core audit work is performed off-site (Jones 2011), via service centers. The audit work performed by service centers typically consists of basic tasks (Goundar 2013) representing the core competencies of the eight largest US-based audit firms (Daugherty et al. 2012). As reported by Gondar (2013, 2), Greg Scates, the deputy chief auditor of the Public Company Accounting Oversight Board (PCAOB), observed, "[novice auditors] are not getting that experience with basic blocking and tackling, the basic fundamentals of auditing."

Shifting basic audit tasks to service centers could lead to impaired auditor judgment quality that extends to overall audit quality, because performing these tasks facilitates base knowledge acquisition early in an auditor's career that will benefit him or her in subsequent career stages (Libby 1995). Further, basic audit tasks support the development of fundamental technical skills and knowledge (Ericsson et al. 1993) and provide the basis for acquiring higher-level skills (Anderson et al. 2001). Additionally, the technical knowledge of a lead auditor is positively associated with higher audit quality (Ernstberger et al. 2015). Interestingly, the proportion of work performed by service centers to total audit work serves as a potential audit quality indicator (PCAOB 2015); this is in part because the use of service centers reduces the

amount of basic audit work completed by on-site audit team members (Daugherty et al. 2012; PCAOB 2015), as well as the opportunity to "learn by doing" (i.e., experiential learning).

Novice auditors who do not perform basic audit work will likely have more difficulty transitioning to the role of reviewing auditors, because preparing (i.e., executing) testwork is a critical antecedent to reviewing (i.e., evaluating) the work of others (Kreitzer and Madaus 1994).[1] It is, therefore, important to understand how removing these basic tasks (i.e., changes in experiential learning) affect novice auditors' development of auditing fundamentals and subsequent task performance.

A second type of off-site audit work I examine is, remote work (i.e., working from home, the office, another client site, or a geographically distant location for the same client), which likely affects the social environment. Further, multilocation audit teams frequently engage high-ranking auditors, regardless of geographic location, based on client-specific needs and auditor expertise (Barrett et al. 2005; Spilker et al. 2015). This ability to work remotely reduces turnover, increases employee satisfaction, and improves work-life balance (Gajendran and Harrison 2007) and provides experienced auditors more flexibility (Hooks and Higgs 2002; Frank and Lowe 2003). While working remotely provides several benefits, it reduces the likelihood of the physical presence of high-ranking auditors (Westermann et al. 2015) which changes the social structure of the on-site audit team (Hanes 2013). Audit managers, for example, conduct the majority of their workpaper reviews electronically, rather than face-to-face (Brazel et al. 2004). As advances in technology reduce the need for of face-to-face interactions, high-ranking auditors are less likely to be on-site (Westermann et al. 2015). Thus, the additional

[1] Although expertise can result from reviewing the work of others, the process of knowledge acquisition is cumulative, and eliminating the lower order process will likely result in slower acquisition of expertise (Anderson et al. 1981; Anderson et al. 2001).

time that auditors spend working off-site results in less time with the audit team, which begins to break down the apprenticeship model.

Remote working by high-ranking auditors affects social aspects of the audit environment (Hanes 2013) and changes the hierarchical audit environment, which in turn affects auditors' judgment quality (Libby and Luft 1993). Further, social psychology research suggests that the presence of another person (typically a superior) positively influences an individual's behavior and performance (Cottrell 1968; Aiello and Douthitt 2001). In this study, I draw on social facilitation theory, which suggests that, over time, individuals learn to associate the presence of another person with evaluation (Cottrell 1968; 1972). In the audit environment, an auditor's actions and behaviors are constantly being observed and evaluated by those around him or her (DeZoort and Lord 1997). However, apart from a direct accountability perspective, social facilitation remains largely unexplored in auditing literature.

Associating the presence of another person with evaluation leads to greater drive (Cottrell 1968; 1972). This increase in drive (i.e., arousal) focuses attention, thereby increasing performance on familiar tasks (Aiello and Douthitt 2001). Thus, I expect a staff auditor's performance to vary relative to prior experience and the presence of another (higher-ranking) auditor, such that prior experience and the presence of another (higher-ranking) auditor will have an interactive effect on performance.

To examine the effects of task-specific experience and the social environment, I employ a 2 x 2, between-subjects experimental design that manipulates whether the auditor has experience preparing an audit task before reviewing a similar task and whether a high-ranking auditor is present. During the first of two tasks, participants either prepared or reviewed substantive tests of

detail. By preparing testwork prior to reviewing, an auditor gains familiarity with the task-specific audit work.

I predict and find that preparing audit testwork facilitates performance on a subsequent review task and that participants, who prepare testwork in the first task, identify more mechanical seeded errors in the second task. Additionally, the results suggest that the presence of a higher-ranking auditor increases total (e.g., conceptual and mechanical) seeded error identification, especially when participants prepared testwork (e.g., gained task-specific familiarity) prior to the review task. This effect is strongest for the identification of mechanical errors.

This study contributes to a growing literature examining how off-site audit work may negatively affect auditor judgments (Hanes 2013). Specifically, the results suggest that audit firms currently engaged in the use of service centers should develop a further understanding of the long-term implications of this strategy. Beyond the use of service centers, remote working by high-ranking auditors changes the social makeup of an audit team. The results of this study suggest that the presence of a high-ranking auditor positively influences the performance of novice auditors. This study furthers the auditing literature and answers a call by previous research (Hanes 2013) to investigate how changes in social factors affect auditor performance and judgment quality. Additionally, I extend prior audit literature (e.g., Libby 1995; Bonner 2008) by examining experiential learning opportunities that likely affect a reviewing auditor's judgment quality. This study's findings suggest a need for further research into off-site audit work.

The remainder of the paper includes theory and hypothesis development in Chapter 2; discussion of the experimental design in Chapter 3; and the results are reported in Chapter 4.

Chapter 5 reports the results of additional analyses. Chapter 6 discusses the implications of the findings for accounting research and also discusses opportunities for future research.

CHAPTER 2

THEORY AND HYPOTHESIS DEVELOPMENT

Geographically Distributed Audits

One particular type of off-site audit work— use of service centers —is rapidly increasing (Youngdahl et al. 2010; Daugherty et al. 2012).[2] However, the majority of the literature in this area focuses on theory development (Rich et al. 1997; Daugherty and Dickins 2009; Hanes 2013) and litigation risk (Barrett et al. 2005; Lyubimov et al. 2013). For example, in a field study, Barrett et al. (2005) examine how a multi-national audit affects an audit's coordination and structure and suggest that multisite audits face an increase in litigation risk and represent the commercialization of the audit profession. Additionally, juror-assessed litigation risk increases and perceived quality decreases as audit work moves off-site (Lyubimov et al. 2013). Interestingly, Downey (2013) examines the effects of service centers partially preparing testwork, a common occurrence in geographically distributed audits, on novice auditor performance. She finds performance declines with lower task identity (e.g., partially completing rather that fully completing). However, the results suggest that full task identity (i.e., fully completing) can attenuate the negative effects of low task significance.

Engaging service centers for audit work has positive and negative effects on the auditing profession as well as possible implications for academia and collegiate education (Daugherty et

[2] Large international audit firm representatives estimate that the use of service centers will increase over time from approximately 5 percent (in 2011) to approximately 8 to 10 percent of total US-based audit hours and may represent approximately 20 percent of total UK-based audit hours (Jones 2011; Daugherty et al. 2012).

al. 2012). On the positive side, audit firms are able to reduce personnel costs and conduct audit procedures in multiple time zones, leading to a quicker turnaround of certain audit tasks. In conjunction, these factors increase the efficiency of audit firms that engage service centers. On the other hand, Daugherty et al. (2012) note that service centers yield their own distinct challenges in supervision and engagement management, including an increase in required skills and knowledge for on-site novice auditors. The authors indicate that consensus exists among partners of large international firms that engaging service centers changes expectations of novice auditors.

Apart from these studies, little empirical evidence exists as to the effects of the use of service centers on the audit process (Causholli et al. 2010). Engaging service centers is an emerging and important area to examine as the increasing amount of off-site audit work (Causholli et al. 2010; Hanes 2013) changes novice auditors' experiential learning opportunities.

Task-specific Experience and Experiential Learning

Auditors perform tasks in accordance with the steps outlined in the audit program, which is developed during the planning phase of an audit. As noted by Rich et al. (1997, 87), "teams perform audits via a sequential and iterative process with multiple, hierarchical layers of review." At any given point in an audit, auditors can take on one of two roles: preparer or reviewer. Using the steps outlined in the audit program, the preparer documents the objective, procedures, results, and conclusion relative to the supporting evidence available. Once the preparer completes a workpaper, it and the supporting documentation are provided to a reviewer. It is the role of the reviewer to examine the workpaper to ensure that "(1) the work was performed and documented; (2) the objectives of the procedures were achieved; and (3) the

results of the work support the conclusions reached" (PCAOB 2010a).[3] Consistent with the apprenticeship model, novice auditors commonly occupy the role of preparer on basic audit tasks.

Traditionally, novice auditors in the United States are afforded a period of on-the-job training during which they develop technical knowledge and skills. Auditors complete testwork early in their career and then, at a later point in their career, review the completed testwork performed by a novice auditor (Libby 1995). Partners consistently report that the development and refinement of their own technical knowledge is directly attributable to on-the-job experiences (Westermann et al. 2015). Further, these partners state their belief that the development of technical knowledge continues in much the same way for current- novice auditors, despite the rapidly changing audit environment. However, the basic audit tasks, which traditionally serve as the foundation for technical knowledge, are increasingly performed at service enters (Jones 2011; Daugherty et al. 2012).

The use of service centers to perform fundamental tasks limits novice auditors' access to experiences and knowledge development. The increased use of service centers transfers rudimentary tasks off-site and removes these foundational tasks from onsite novice auditors, thus requiring an increase in entry-level technical skills. Individuals, who serve on an audit team where such work is conducted at service centers, will require increasingly higher entry-level technical, communication, and supervisory skills (Daugherty et al. 2012). Novice auditors on audit teams that employ service centers will be initially assigned to higher-level tasks that may not allow them to develop fundamental technical knowledge. Further, the resulting gap in

[3] Reviews can take place with or without the preparer's presence. When the preparer is present, discussion with the reviewer may or may not occur. Once the review is complete, the reviewer can communicate comments to the preparer electronically or face-to-face.

experience is not currently filled through the collegiate education process (Daugherty et al. 2012).

Engaging service centers to prepare foundational audit testwork creates an experience gap for novice auditors, which leads to a knowledge loss for US-based auditors. Removing opportunities for experiential learning could lead to unintended consequences for auditor quality, which would result from novice auditors experiencing a decline in their ability to detect errors and misstatements. This diminishing capability would likely result in a higher-than-estimated detection risk (Messier et al. 2014) and is a potential departure from AU 210, which requires auditors to have "adequate technical training and proficiency" (PCAOB 2010b).

The gap in experience and fundamental technical knowledge for novice auditors could have a detrimental impact on audit quality, because lead auditors' technical knowledge is positively associated with higher audit quality (Ernstberger et al. 2015). Additionally, staff auditors outperform audit seniors (Harding and Trotman 1999) and audit seniors outperform audit managers (Ramsay 1994) at detecting mechanical errors during workpaper reviews. However, the decline in opportunities for US-based novice auditors to perform fundamental and technical testwork might, in turn, decrease the likelihood of identifying errors related to mechanical failure.

Determinants of Knowledge and the Relationship to Performance

Knowledge acquisition theory suggests that experience leads to the development of knowledge, which, in turn improves performance (Bonner and Pennington 1991; Libby and Luft

1993; Libby 1995) and the acquisition of expertise (Bédard and Chi 1993).[4] Libby (1995, 179) defines experience as a "wide variety of first- and second-hand task-related encounters that provide opportunities for learning in the audit environment." He details four types of firsthand task experience: (1) task completion, (2) reviewing the work of others, (3) process feedback, and (4) outcome feedback.[5] Of interest in this study are task completion (i.e., preparing) and reviewing the work of others (i.e., reviewing).

Consistent with knowledge acquisition theory, the hierarchical theory of learning suggests that the experience of learning-by-doing (e.g., preparing testwork) is an essential antecedent of the knowledge necessary for high-quality performance (Ackerman 1987; Anderson et al. 2001). Further, Anderson et al. (2001) define application as carrying out a procedure in a given situation, for example preparing testwork by completing substantive audit procedures which were developed by more senior auditors during the planning phase. In addition, the hierarchical theory of learning suggests that evaluation (i.e., reviewing the work of others) is a cognitive process requiring higher-order skills that rely on prior acquisition of lower-order, task-specific skills such as remembering, understanding, application, and analysis (Anderson et al. 2001). Evaluation is defined as making judgments based on criteria or standards (i.e., reviewing the work of others to ensure that "(1) the work was performed and documented; (2) the objectives of the procedures were achieved; and (3) the results of the work support the

[4] Ability is positively related to both knowledge and performance for unstructured tasks (Libby and Luft 1993; Bonner and Walker 1994). In this study, the tasks are structured (Abdolmohammadi 1999); therefore, I do not make predictions related to ability.

[5] Prior literature finds support for knowledge acquisition and performance gains through process feedback (Bonner and Pennington 1991) and outcome feedback paired with explanatory instructions (Bonner and Walker 1994).

conclusions reached" (PCAOB 2010a)). Figure 1 depicts the hierarchical theory of learning as adapted from Anderson et al. (2001).

Integrating knowledge acquisition theory and the hierarchical theory of learning, the firsthand, task-related experiences of preparing testwork and reviewing the work of others align with the cognitive processes of application and evaluation, respectively. Thus, knowledge acquisition is cumulative, such that eliminating exposure to a lower-order process will likely result in slower acquisition of higher-order skills. Drawing from these theories, I predict that auditors who have the experience of preparing testwork prior to reviewing the work of others will achieve higher-quality performance when subsequently reviewing the work of others. Stated formally:

> **Hypothesis 1:** Novice auditors who first prepare audit testwork will identify *more* seeded errors during a subsequent workpaper review task as compared to novice auditors who have not previously prepared a similar task.

FIGURE 1

Hierarchical Theory of Learning

Adapted from Anderson et al. (2001)

The Cognitive Processes Dimension

Lower-order thinking skills → Higher-order thinking skills

Remember	**Understand**	**Apply**	**Analyze**	**Evaluate**	**Create**
Retrieve relevant knowledge from long-term memory.	Construct meaning from instructional messages, including oral and written communication.	Carry out a procedure in a given situation.	Break materials into fundamental parts and determine how parts relate to an overall structure or purpose.	Make judgments based on criteria or standards.	Put elements together to form a new pattern or structure.

The Knowledge Dimension

Concrete Knowledge → Abstract Knowledge

Factual	**Conceptual**	**Procedural**	**Metacognitive**
The basic elements a student must know to be acquainted with a discipline or solve problems in it.	The interrelationships among the basic elements within a larger structure that enable them to function together.	How to do something, methods of inquiry, and criteria for using skills, algorithms, techniques, and methods.	Knowledge of cognition in general as well as awareness and knowledge of one's own cognition.

A Social Factors and the Audit Environment

In addition to the effect of experiential learning on the judgment quality of auditors, prior literature suggests off-site audit work affects the social aspects of the audit environment (Hanes 2013). Further, the hierarchical group setting affects judgment quality (Libby and Luft 1993). Thus, changes in the hierarchical social environment, arising from high-ranking auditors working

remotely present an important line of inquiry relative to the impact on auditors' judgment quality.

Social Facilitation

Social psychology is rich in research examining social facilitation—that is, the effect of the presence of another individual on performance (e.g., Triplett 1898; Allport 1924; Asch 1952). Although several theoretical derivations of social facilitation theory exist, each demonstrates that the presence of another person affects an individual's behavior and performance (Aiello and Douthitt 2001). For example, individuals learn to associate the physical presence of another (typically high-ranking) person with evaluation (Cottrell 1968; 1972). Cohen (1980) suggests that the presence of another person signals the possibility of evaluation, which leads to an increase in drive. Further, Cohen suggests this increased drive increases attentional focus (i.e., effort).

Auditing is a fitting environment in which to examine the effects of social facilitation, because auditors' actions and behaviors are generally observable and subject to evaluation by those physically present (DeZoort and Lord 1997). Incorporating social facilitation theory into the audit environment, an auditor's expectation of evaluation is salient, especially in the presence of other auditors. Apart from the effects of accountability to a reviewer, discussed below, social facilitation remains largely unexplored in auditing literature.

Auditing research has examined the effects of the anticipated presence (face-to-face) of an audit manager during a workpaper review on preparer performance (e.g., Brazel et al. 2004; Fargher et al. 2005; Payne et al. 2010). Audit seniors expecting a face-to-face review of their going concern assessment provide higher-quality judgments and are more effective, but they also

spent more time on task (Brazel et al. 2004). Additionally, Payne et al. (2010) find that anticipating an interactive review improves audit seniors' performance of conclusion-oriented audit procedures and identification of trends indicative of fraud. The majority of research uses unstructured tasks such as analytical procedures and going concern assessments, whereas I focus on the structured substantive testwork that would be done by novice auditors (Abdolmohammadi 1999).

Prior audit literature provides support for my prediction that novice auditors' performance will improve in the presence of a high-ranking auditor. For example, auditors performing a ratio analysis with high knowledge and ability show an increase in performance when accountability is high (Tan and Kao 1999) and a decrease in performance when accountability is low (Tan et al. 2002). However, the literature has yet to examine the effects on novice auditor performance of the physical presence of a high-ranking auditor. To address accountability concerns, I remove direct accountability to the physically present high-ranking auditor. As in the case of multilocation or geographically distributed audit teams, it is not uncommon for staff auditors to work in close proximity to high-ranking auditors to whom they do not directly report, while the high-ranking auditor that will review their work is working elsewhere. See the Research Design section for further discussion.

Recall, performance gains attributed to social facilitation are derived from an increase in attentional focus (i.e., effort). That is, an increase in effort would increase performance on a familiar task. Furthermore, performance gains attributed to social facilitation increase in magnitude when the task is familiar (Schmitt et al. 1986; Seta and Seta 1995). As prior task-related preparing experience increase, so does task-related familiarity. Such that, the presence of a high-ranking auditor will increase performance more when participants have an increase of

familiarity with task procedures from preparing testwork prior to a review task. As Figure 2 shows, I predict that novice auditors will perform better in the presence of a high-ranking auditor than when performing alone and that novice auditors who have the experience of preparing testwork prior to reviewing the work of others will have relatively higher performance in the presence of a high-ranking auditor (see Figure 2). Stated formally:

> **Hypothesis 2**: The improvement in seeded error detection resulting from the presence of a high-ranking auditor will be greater when novice auditors have previously prepared a similar task compared to when they have previously reviewed a similar task.

Figure 2 provides the main effect and interaction effects predicted in Hypothesis 1 and Hypothesis 2.

FIGURE 2

Predicted Effects of Presence of a High-ranking Auditor on Performance of a Review Task

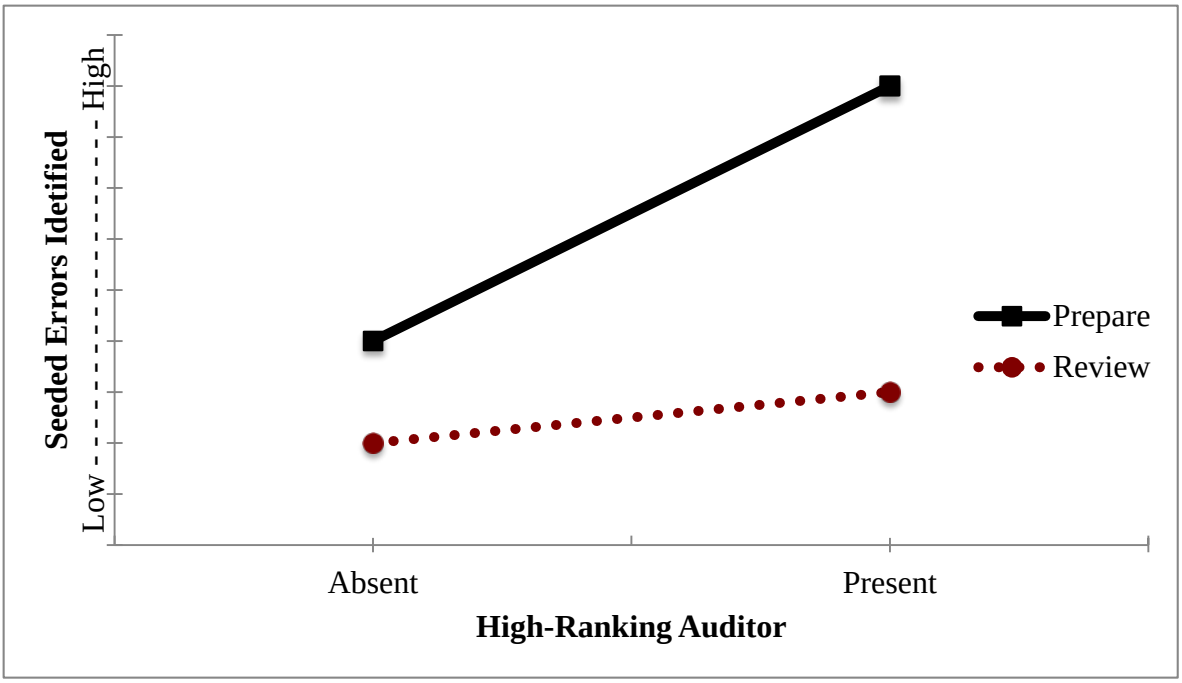


Figure 2: Hypothesized ordinal interaction of Task 1 (review or prepare) and a high-ranking auditor (absent or present) on novice reviewer performance. H1 and H2 predict that identification of seeded errors on a review task is jointly affected by Task 1 experience and the presence of a high-ranking auditor.

CHAPTER 3

METHOD

Participants

Participants were 76 Masters of Accountancy students, as Master's students with internship experience are commensurate to, and serve as a proxy for, novice auditors (Liyanarachchi 2007). Demographic information, both in summary and by experimental condition, are provided in Table 1. Prior audit experience ranged from no prior experience to 24 week of experience, with an average of approximately 7 weeks. Discussions with practicing audit managers and seniors revealed that staff auditors of this experience level are expected to be generally familiar with the types of testing and procedures presented. Further, postinternship debriefings suggested that returning students have very little, if any, experience with investments (specifically, marketable securities) testwork, which is consistent with the findings of Daugherty et al. (2012), see Figure 3. I intentionally chose marketable securities to control for the potential confounding of prior experience and designed the workpapers so that some exposure to audit testing (e.g., hands-on casework from an undergraduate accounting course) would be acceptable, but not necessary.[6]

[6] Further, all analyses used to test hypotheses were also performed using demographic data (e.g., experience, prior task familiarity) as covariates. Such inclusion did not significantly affect the results or change the inferences drawn. In addition, there were no significant differences among experimental conditions for these variables, see Chapter 5 for further discussion.

TABLE 1

Participant Demographics

	Experimental Conditions				
	Absent, Review	Present, Review	Absent, Prepare	Present, Prepare	Overall
Task familiarity: general	1.9	1.7	2.4	1.9	2.0
Task familiarity: investments	0.4	0.4	0.8	0.8	0.6
Auditing experience (in weeks)	6.6	5.9	9.2	8.43	7.5
Percentage of time spent auditing public companies	53.0	58.5	64.2	41.0	54.8

This table provides descriptive statistics on demographic information of all participants. Task familiarity is a consolidated measure ranges from 0 (none) to 6 (very experienced).

FIGURE 3

Audit Tasks Performed by Service Centers

Adapted from Daugherty et al. (2012)

- Coordination of distribution and receipt of cash, debt, receivables, contracts, derivatives, attorney inquiries, and investment confirmations. Such activities include selection, preparation, mailing, tracking, and second requests
- Computerized testing (footing, unusual items, recalculation) of subsidiary ledgers (e.g., receivables, payables, fixed assets, lease obligations, stock options)
- SAS 70 workflow
- Interface with client systems and set-up of auditors' workpapers (e.g., load client opening general ledger balances into firm software)
- Financial statement tie-outs to include agreeing to prior year, internal consistency, mathematical accuracy, agreement to earnings releases
- Investment securities price testing to include completeness, comparison with external corroborating evidence, reconciliation, analysis of variances
- Coordination of deliverable schedules and deadlines for multi-location audit engagements
- Detailed testing to include mathematical accuracy, sample selections, preparation of standard templates, and recalculations
- Analytical services to include business and industry research in the formulation of expectations, populating analytical work papers, difference identification, and comparison to tolerable thresholds
- General ledger testing to include reconciliation to support and verification of approvals

Experimental Tasks

I employ a 2 (task-specific experience: prepare or review) by 2 (social environment: high-ranking auditor absent or present) between-participants experiment. See Figure 4 for an illustration of the full experimental design. The experimental materials, administered via Qualtrics, included a task-specific knowledge pretest, background information on two hypothetical audit clients, relevant workpapers with supporting documents for each task, a knowledge posttest, and a postexperiment questionnaire. See Figure 5 for an illustration of the experimental timeline. First, participants were randomly assigned one of four conditions, escorted to their assigned workspace, asked to assume the role of a new staff auditor at a fictional audit firm.

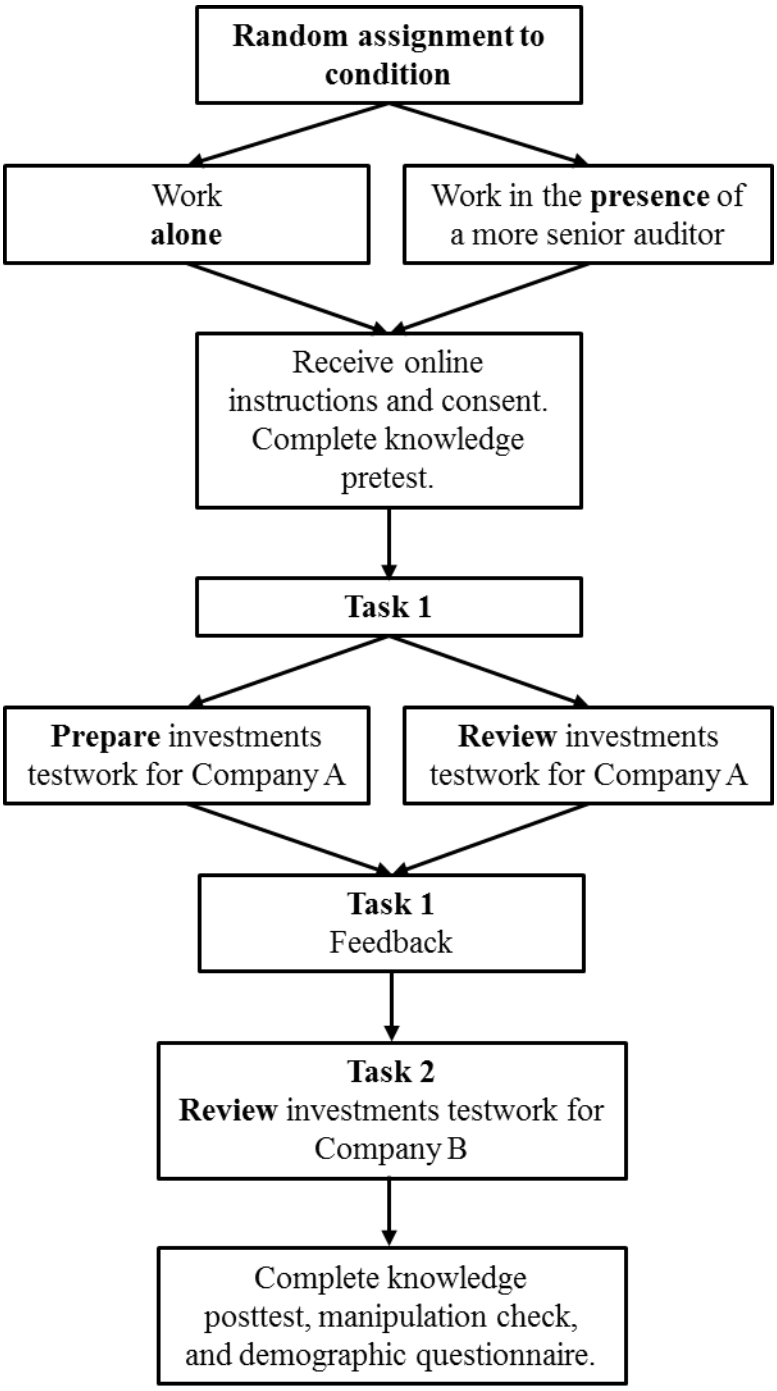
FIGURE 4

Experimental Design

		Presence of high-ranking auditor	
		Absent	**Present**
Task-specific Experience	**Review**	High-ranking auditor **absent** Task 1: **Review** investment testwork (Cell 1)	High-ranking auditor **present** Task 1: **Review** investment testwork (Cell 2)
	Prepare	High-ranking auditor **absent** Task 1: **Prepare** investment testwork (Cell 3)	High-ranking auditor **present** Task 1: **Prepare** investment testwork (Cell 4)

FIGURE 5

Experimental Timeline



Participants begin the study by completing a task-specific knowledge pretest consisting of ten questions, adapted from Messier et al. (2014) and Johnstone et al. (2015), with a total of 20 points possible. The pretest serves as a measure of prior task-specific knowledge regarding investments. The questions and possible answers are presented in random order, see Appendix A. These same ten questions are repeated (in random order) in the posttest.

During Task 1, all participants received the same background information, financial statements, audit procedures, and supporting documentation for the same hypothetical audit client, Halcyon Boards. The tasks were adapted, with permission, from an instructional resource presented in Johnstone et al. (2015). After completing the Task 1, all participants responded to the same feedback questions, as timely feedback increases effort (Lambert and Agoglia 2011) and improves performance (Earley 2003). I included three feedback questions and the correct response. Feedback question one was included to encourage participants to complete the experiment within the time provided, and questions two and three were designed to highlight the types and classification of investments, respectively. Figure 6, provides the specific feedback questions as well as all possible responses.

FIGURE 6

Feedback Questions

Question 1:

Did you recalculate to footing or cross-footing?

o Yes
o No

Response to answer if correct:

You responded: No, which is the correct answer.
Thank you! In the interest of time, please continue to assume all footing and cross-footing is correct. Please do not spend your valuable time recalculating footing or cross-footing, as this has already been completed by our offshore team.

Response to answer if incorrect:

You responded: Yes.
In the interest of time, please assume all footing and cross-footing is correct. Please do not spend your valuable time recalculating footing or cross-footing, as this has already been completed by our offshore team.

Question 2:

Based on your understanding of marketable securities, the securities held by Halcyon Boards, Inc. as of December 31, 2014:

o Debt securities are clearly blue chip but not debt securities
o Equity securities are clearly blue chip but not debt securities
o All are clearly blue chip securities
o All are clearly not blue chip securities

Response to answer if correct:

You responded: All are clearly blue chip securities, which is the correct answer.
Blue chip refers to large well-established, financially sound companies that have operated for many years.

Response to answer if incorrect:

The correct answer is: All are clearly blue chip securities.
Blue chip refers to large well-established, financially sound companies that have operated for many years.

Question 3:

Would you suggest the audit team request a fair-value specialist review Halcyon Boards' marketable securities? Why?

o Yes _____
o No _____

Response to answer if correct:

You responded: No.
I agree, I see no reason to request a fair-value specialist, as all of HBI's marketable securities are level 1 assets

Response to answer if incorrect:

You responded: Yes.
However, I see no reason to request a fair-value specialist, as all of HBI's marketable securities are level 1 assets.

To avoid carryover effects (O'Donnell and Schultz 2005), Task 1 and Task 2 presented different hypothetical audit clients (Halcyon Boards and Kinetic Canoes, respectively), each with its own background information, financial statements, and workpapers. Additionally, experimental materials stated, "Thank you again for your hard work HBI! Please begin the review of Kinetic Canoes, Inc. Remember, the two clients you are working on today are separate entities and NOT related in any way. So please do your best to keep them separate." Next, all participants completed Task 2, where the dependent variables are measured. Finally, the participants completed a posttest and responded to an exit questionnaire that included manipulation check questions and demographic information.

Independent Variables

Task-specific Experience

To manipulate underlying task experience, I varied Task 1 (substantive testwork over investments) at two levels: prepare and review.[7] In both conditions, participants received the same underlying information and documentation, all with no seeded errors. The only difference is that the review condition included all sign-offs, cross-references, recalculations, and notations of completed testwork. In the interest of time, footing and cross-footing were completed by the experimenter in both conditions, and participants were told to "assume all footing and cross-footing is correct" and no errors were seeded in the footing or cross-footing, see Appendix B for illustrative example of Task 1.

The experimental materials hold constant the quality and quantity of the prior experience and only manipulate the nature of the experience. Therefore, participants in the prepare condition

[7] Consistent with Abdolmohammadi (1999), the substantive testwork task in this experiment was appropriate for a novice auditor.

were asked to complete audit procedures related to substantive testwork over investments and annotate sign-off and cross-referencing as well as conclude. Participants in the review condition were asked to review these same procedures completed by "a first-year staff auditor" and provide any review notes as well as their own conclusion. After Task 1, the remainder of the experiment was the same for all participants.[8] In an effort to reduce possible carryover bias, after completing Task 1, all participants were reminded that Task 2 was for a different hypothetical client.[9] Task 2 provides the dependent variable measures and is discussed below.

Social Environment – the Presence of Another

I manipulated the presence of a high-ranking auditor by using a confederate, such that participants either completed the experiment in a workspace with a confederate assuming the role of a high-ranking auditor (present) or alone (absent), see Figure 7. For the participants assigned to the *present* condition, the confederate was in the workspace when the participant arrived and remained throughout the entire experiment. Further, in the *present* condition participants were introduced to the confederate and told she was "assuming the role of an audit manager working on a different task and would not review their work."[10] This was further reinforced via an email from an audit senior, which stated, "Also, Lynn Clark, a manager, will be working in the conference room as well. However, she oversees other areas and will not be reviewing your work." Further, the confederate was instructed, "not [to] initiate conversation." In the event that a participant initiates conversation, the confederate was instructed to say, "I'm

[8] Several studies have shown that procedural knowledge can be acquired from one task (e.g., Anderson et al. 1981; Ahn et al. 1992; Westermann 2016).

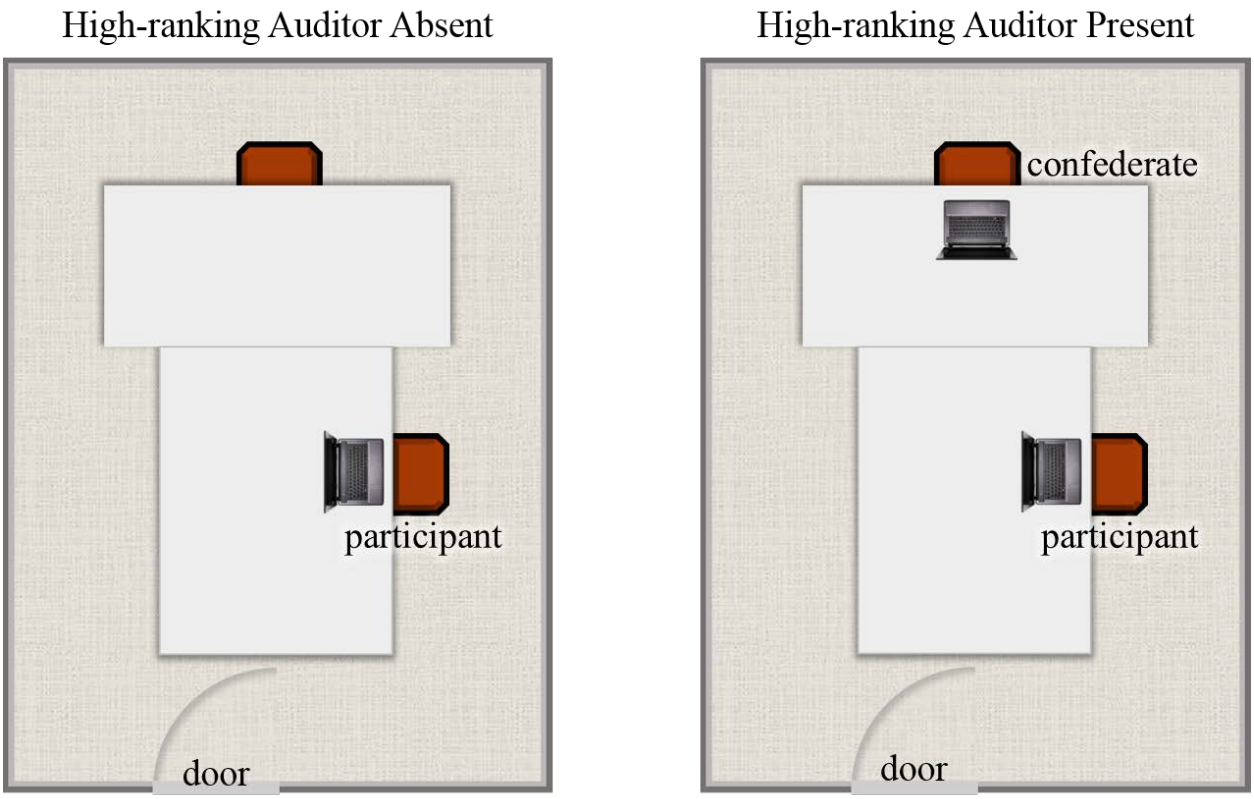
[9] Additionally, participants in the reviewing condition were informed that there were two different preparers for Task 1 and Task 2 (O'Donnell and Schultz 2005).

[10] To avoid deception, I disclosed the true nature of the confederate before participants began Task 1. Further, to eliminate accountability, I reminded participants that the confederate would not review their work, see IRB Certification at Appendix C.

working on a different area and am not familiar with the work assigned to you." Participants in the *absence of another* condition conducted the experiment in an equivalent workspace alone.

FIGURE 7

Workspace



Dependent Variable

The dependent variables were captured via Task 2, in which participants were asked to review substantive testwork over investments for a hypothetical company, Kinetic Canoes. Participants were provided with partially audited financial statements, the investments in marketable securities audit program, lead sheet, audit memoranda, marketable securities schedule, and supporting documentation; all of these materials were provided electronically and in hard copy, and included sign-offs, cross-references, indicated footing, cross-footing, and recalculations as well as other relevant tickmarks. Consistent with Owhoso et al. (2002), eight errors were seeded into this workpaper review task (see Figure 8 for description of errors), and participants were asked to document their review comments electronically, within Qualtrics. The main dependent variables of interest relate to the participant's judgments and decisions while completing the workpaper review in Task 2; those are (1) the number of seeded errors identified and (2) the type of the seeded errors identified.

Each seeded error is a coded as a dichotomous variable (1 = error identified and 0 = error not identified). Consistent with Lambert and Agoglia (2011), any comments requesting additional work, further discussion with the preparer, or guidance from a superior auditor counted as an error discovered. An error was only categorized as an error not discovered if the participant provided no comments related to the error or noted that the workpapers appeared appropriate. Errors identified were aggregated, in total and by error type (i.e., mechanical or conceptual), for analysis.

FIGURE 8

Listing of Seeded Errors

	W/P Ref.	Error Description	Type of Error
1)	I-01	Staff auditor did not reference where work was completed for procedure 1.07, which states, "Verified sales price by examining invoices or broker's statement."	Mechanical
2)	I-02	The workpaper does not have preparer's sign off.	Mechanical
3)	I-02	Staff auditor proposed an adjustment to correct accrued interest but did not adjust for accrued interest on the commercial paper.	Mechanical
4)	I-02	Investment in CVS debenture bonds should be classified as Available for Sale; this investment and related interest should be reclassified accordingly.	Conceptual
5)	I-02	The commercial paper should not be classified as a Trading Security. Proper classification as Available-for-Sale or Held-to-Maturity would require additional documentation.	Conceptual
6)	1-02	Proposed audit adjustment number 14 has the debit and credit backwards.	Mechanical
7)	I-04	Investment portfolio contains securities other than S&P 500 for equity securities and AA for debt securities.	Mechanical
8)	I-05 series	Staff auditor tested the purchase price and failed to test year-end valuation of the commercial paper, yet signed off on audit procedure "Determined current market value through reference to a financial reporting service or a similar source."	Conceptual

CHAPTER 4

RESULTS

Manipulation Check Questions

Participants were asked to answer two manipulation check questions during the exit questionnaire. To examine their attentiveness to the manipulation of experiential learning, participants were asked, “What was the first audit task you completed?” To address whether the experiment was successful in manipulating social facilitation and to parse out unintended feelings of accountability among participants to the person in the room, the participants were asked, “Was the person that will be reviewing your work in the room while you completed Task 1 and Task 2?” Ten of 68 participants (15%) failed the task-related questions, and only one participant (1%) failed the second question. The participant who failed the second question also failed the first, task-related, question. As I am unable to disentangle the effects of accountability from social facilitation, for this one participant, I exclude all of this participant’s responses from analysis. However, the remaining nine participants, who incorrectly answered the task questions, remain in the final sample as their incorrect answer regarding Task 1 does not change their exposure to the task and related learning opportunity. Additionally, excluding these nine participants does not change the significance of the results and the inferences drawn from them.

Hypotheses 1 and 2

In conjunction, H1 and H2 specify the ordinal interactive effect of the two independent variables on novice auditors’ identification of seeded errors that is illustrated in Figure 2. As

such, I expect novice auditors who prepare testwork in Task 1 to identify more seeded errors in a subsequent workpaper review task than those who review testwork in Task 1. Further, I expect novice auditors working in the presence of a high-ranking auditor to identify more seeded errors in a subsequent review task than those who work alone, especially for novice auditors who prepare testwork in Task 1. Following my predictions specified by H1 and H2, I test the hypotheses with a planned contrast using the following weights: –3 for the review/absent condition (Cell 1), –2 for the review/present condition (Cell 2), +1 for the prepare/absent condition (Cell 3), and + 4 for the prepare/present condition (Cell 4). Consistent with Rosnow et al. (2000) I use the harmonic mean sample size.

Total Seeded Errors Identified

To test H1 and H2 I measure review performance as the number of seeded errors the participant identifies. Table 2 presents the descriptive statistics (Panel A) and results from the contrast (Panel C) used to test H1 and H2, along with results of the traditional ANOVA (Panel B), for the total number of seeded errors correctly identified. Visually, the cell means (Figure 9 Panel A) are in a pattern partially consistent with the contrast, with Cell 4 highest, followed by Cell 2, Cell 1, and Cell 3 (means = 1.57, 1.06, 0.83, and 0.68, respectively). The planned contrast is marginally significant ($p = 0.077$). Further, the ANOVA interaction term is marginally significant ($p = 0.086$) and the main effect of prepare/review lacks significance ($p = 0.227$). These results do not support an experiential learning main effect (H1) and provide only marginal support for the interaction (H2). In other words, participants who worked in the presence of a high-ranking auditor and prepared testwork in Task 1, identified more seeded error in a testwork review task.

TABLE 2

Total Seeded Errors Identified

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**	Cell 1	Cell 2	
Mean	0.83	1.06	0.94
(SD)	(0.92)	(0.85)	(0.89)
	n=18	n=16	n=34
Stage 1 Task **Prepare**	Cell 3	Cell 4	
Mean	0.68	1.57	1.06
(SD)	(0.75)	(1.34)	(1.12)
	n=19	n=14	n=33
Column Means	0.76	1.30	
(SD)	(0.83)	(1.20)	
	n=37	n=30	

Panel B: Conventional ANOVA results

Independent Variable	df	F	p-value[a]
Presence	1	5.50	0.011
Prepare	1	0.06	0.227
Presence * Prepare	1	1.93	0.086

Panel C: Planned contrast

Test: Performance will be highest in the prepare/present condition (cell 4), lower in the prepare/absent condition (cell 3), lower in the review/present condition (cell 2) and lowest in the review/absent conditions (cell 1); as such contrast weights (in cell order) are –3, –2, +1, and +4.

Source of Variation	df	F	p-value
Contrast	1	3.24	0.077
Residual [b]	2	2.13	0.102

[a]All p-values relating to directional hypotheses are one-tailed; otherwise p-values are two-tailed.

[b]The residual sum of squares represents the between-group variance not explained by the contrast weights used to test the hypotheses (Buckless and Ravenscroft 1990). An insignificant F-statistic for the residual indicates that the specified contrast is a good fit (Lambert and Agoglia 2011).

Seeded Errors Identified by Type

Further, I decompose the total error into the categorization by type of error (i.e., mechanical and conceptual). Prior research finds that staff auditors typically outperform audit seniors, who outperform audit managers at detecting mechanical errors during a workpaper review (Harding and Trotman 1999; Ramsay 1994). Further, audit seniors are more likely to identify more mechanical than conceptual errors (Owhoso et al. 2002). Therefore, it is important to understand the results of this study relative to detecting mechanical errors.

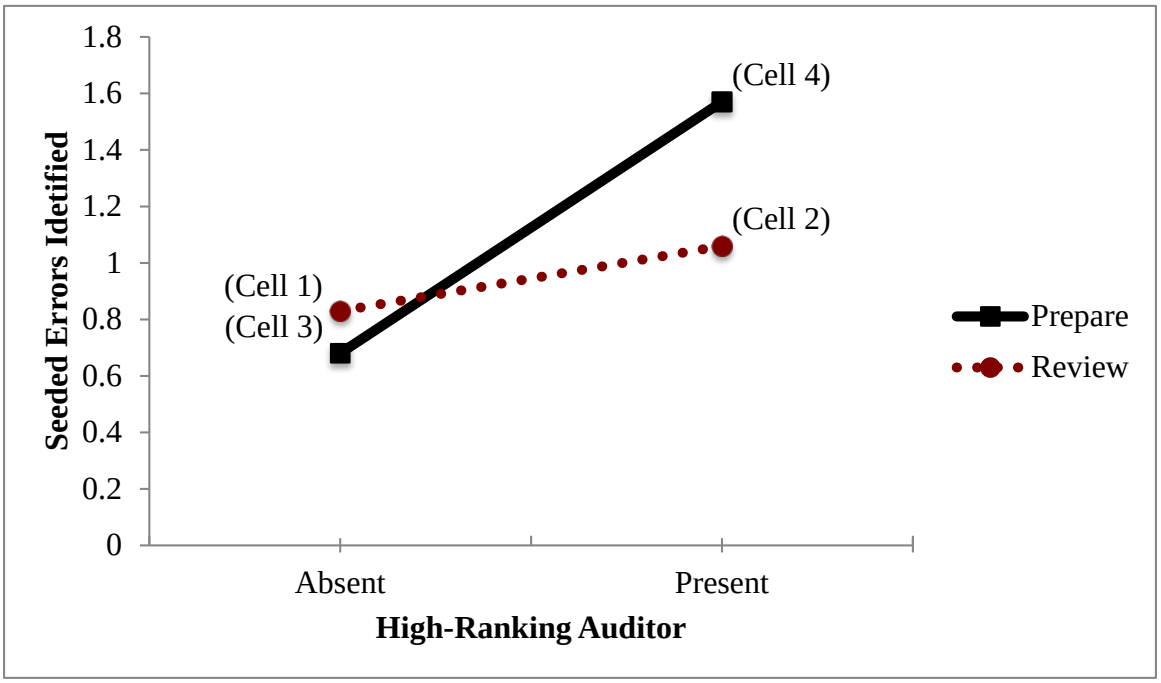
Consistent with total errors identified, to test H1 and H2, I measure review performance as the number of mechanical seeded errors the participant identifies. Table 3 presents the descriptive statistics (Panel A) and results from the contrast (panel C) used to test H1 and H2, along with results of the traditional ANOVA (Panel B), for the total number of mechanical seeded errors correctly identified. Cell means are in a pattern (Figure 9 Panel B) mostly consistent with the planned contrast, with the Cell 4 highest, followed by Cell 2, Cell 1, and Cell 3 (means = 1.14, 0.38, 0.33, and 0.26, respectively). Such that only Cell 3 (absent/prepare) falls outside of the expected pattern. The planned contrast is significant ($p = 0.021$).[11] These results support both H1 and H2. Further, analysis of the number of conceptual seeded errors identified does not provide support for H1 or H2, see Table 4.

[11] As noted above, consistent with Rosnow et al. (2000) I use the harmonic mean sample size to calculate the contrast coefficient

FIGURE 9

Effects of a High-ranking Auditor on Performance of a Review Task

Panel A: Total Seeded Errors Identified



Panel B: Mechanical Seeded Errors Identified

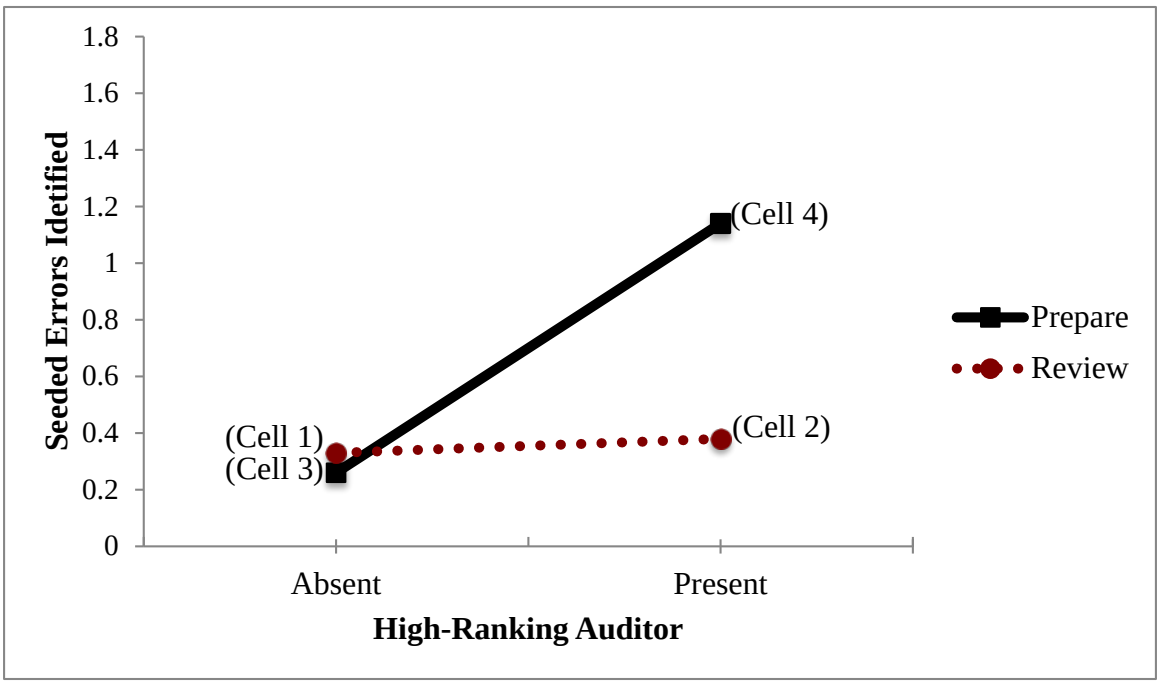


Table 3

Mechanical Seeded Errors Identified

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**	Cell 1	Cell 2	
Mean	0.33	0.38	0.35
(SD)	(0.49)	(0.62)	(0.54)
	n=18	n=16	n=34
Stage 1 Task **Prepare**	Cell 3	Cell 4	
Mean	0.26	1.14	0.64
(SD)	(0.56)	(1.10)	(0.93)
	n=19	n=14	n=33
Column Means	0.30	0.73	
(SD)	(0.52)	(0.94)	
	n=37	n=30	

Panel B: Conventional ANOVA results

Independent Variable	df	F	p-value[a]
Presence	1	7.09	0.005
Prepare	1	4.07	0.024
Presence * Prepare	1	5.87	0.009

Panel C: Planned contrast

Test: Performance will be highest in the prepare/present condition (cell 4), lower in the prepare/absent condition (cell 3), lower in the review/present condition (cell 2) and lowest in the review/absent conditions (cell 1); as such contrast weights (in cell order) are –3, –2, +1, and +4.

Source of Variation	df	F	p-value
Contrast	1	8.88	0.021
Residual[b]	2	0.06	0.191

[a]All p-values relating to directional hypotheses are one-tailed; otherwise p-values are two-tailed.

[b]The residual sum of squares represents the between-group variance not explained by the contrast weights used to test the hypotheses (Buckless and Ravenscroft 1990). An insignificant F-statistic for the residual indicates that the specified contrast is a good fit (Lambert and Agoglia 2011).

Table 4

Conceptual Seeded Errors Identified

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**	Cell 1	Cell 2	
Mean	0.50	0.69	0.59
(SD)	(0.62)	(0.60)	(0.61)
	n=18	n=16	n=34
Stage 1 Task **Prepare**	Cell 3	Cell 4	
Mean	0.42	0.50	0.45
(SD)	(0.51)	(0.52)	(0.51)
	n=19	n=14	n=33
Column Means	0.46	0.60	
(SD)	(0.56)	(0.56)	
	n=37	n=30	

Panel B: Conventional ANOVA results

Independent Variable	df	F	p-value[a]
Presence	1	0.92	0.171
Prepare	1	0.92	0.171
Presence * Prepare	1	0.15	0.344

[a]All p-values relating to directional hypotheses are one-tailed; otherwise p-values are two-tailed.

CHAPTER 5

ADDITIONAL ANALYSES

Experience, Task Familiarity, and Distractibility

Additional analysis considers the possible effects of three participant-specific factors, that have been demonstrated to affect performance: (1) prior audit experience (Waller and Felix 1984), (2) prior task-specific familiarity (Bonner et al. 1997), and (3) distractibility (Bridger et al. 2013; Normand et al. 2014).[12] Experience was measured in weeks and familiarity was measured using a seven-point scale (1 = Not at all experienced and 7 = Very experienced) and include general and investments specific questions about preparing and reviewing experience prior to this study. Finally, I measured distractibility using the Cognitive Failures Questionnaire (CFQ) (Broadbent et al. 1982), as highly distractible individuals tend to have lower performance quality (Bridger et al. 2013; Forster and Lavie 2014; Normand et al. 2014). The CFQ is a self-reported measure of failures in perception, memory, and motor function, is highly cited in the psychology literature, and is robust in test-retest applications (Wallace et al. 2002) for examining participants' distractibility. The post-experiment questionnaire includes a series of self-reported measures designed to capture and test for any such effects (see Figures 10 and 11). In an analysis of variance, there is no significant effect of *presence*, *prepare*, or *presence* x *prepare* on experience, task familiarity, or distractibility (see Tables 5.1 - 5.3).

[12] While it is possible that each of these factors either individually or in combination may covary with judgment quality, random assignment of participants to each of the conditions should control for any related effects.

I test the moderating effect of these variables. The inclusion of these variables, individually or together, as covariates in the main analysis does not change the inferences associated with hypothesis testing described in Chapter 4 when examining total seeded errors (see Tables 6.1 - 6.2), mechanical seeded errors (see Tables 7.1 - 7.2), conceptual seeded errors (see Tables 8.1 - 8.2).

FIGURE 10

Experience and Task-specific Familiarity Measures

INSTRUCTIONS: Please respond to the questions below, which relate to YOU personally, and NOT to the materials presented on the preceding pages:

How many WEEKS of audit experience do you have? _____

Please indicate your experience (i.e., familiarity) with the following audit tasks:

	No prior experience (1)	(2)	(3)	(4)	(5)	(6)	Very experienced (7)
Preparing Workpapers							
Preparing Investments Workpapers							
Reviewing Workpaper							
Reviewing Investments Workpapers							

FIGURE 11

Distractibility Measure

INSTRUCTIONS: Please respond to the questions below, which relate to YOU personally, and NOT to the materials presented on the preceding pages. (**Again, all of your responses are confidential**):

The following are questions about minor mistakes, which everyone makes from time to time, but some of which happen more often than others. Please indicate how often these things have happened to you in the last six months.

1) Do you read something and find you haven't been thinking about it and must read it again?

Never						Always
1	2	3	4	5	6	7

2) Do you find you forget why you went from one part of the house to the other?

Never						Always
1	2	3	4	5	6	7

3) Do you fail to notice signposts on the road?

Never						Always
1	2	3	4	5	6	7

4) Do you find you confuse right and left when giving directions?

Never						Always
1	2	3	4	5	6	7

5) Do you have trouble making up your mind?

Never						Always
1	2	3	4	5	6	7

6) Do you daydreaming when you ought to be listening to something?

Never						Always
1	2	3	4	5	6	7

7) Do you start doing one thing at home and get distracted into doing something else (intentionally)?

Never						Always
1	2	3	4	5	6	7

8) Do you find you can't quite remember something although it's 'on the tip of your tongue'?

Never						Always
1	2	3	4	5	6	7

9) Do you find you can't think of anything to say?

Never						Always
1	2	3	4	5	6	7

TABLE 5.1

Univariate Results: Experience

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**			
Mean	6.56	5.94	6.26
(SD)	(5.13)	(6.82)	(5.90)
	n=18	n=16	n=34
Stage 1 Task **Prepare**			
Mean	9.16	8.43	8.85
(SD)	(4.97)	(6.07)	(5.39)
	n=19	n=14	n=33
Column Means	7.89	7.10	
(SD)	(5.15)	(6.49)	
	n=37	n=30	
Overall Means	7.54		
(SD)	(5.76)		
	n=67		

Panel B: ANOVA Results

	F	p-value
Presence	0.23	0.634
Prepare	3.27	0.076
Presence * Prepare	0.002	0.969

This table provides descriptive statistics and ANOVA results of total weeks of audit experience. All p-values are two-tailed.

TABLE 5.2

Univariate Results: Task Familiarity

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**			
Mean	8.78	8.25	8.53
(SD)	(4.53)	(4.19)	(4.32)
	n=18	n=16	n=34
Stage 1 Task **Prepare**			
Mean	10.37	9.29	9.91
(SD)	(4.40)	(4.01)	(4.21)
	n=19	n=14	n=33
Column Means	9.59	8.73	
(SD)	(4.47)	(4.07)	
	n=37	n=30	
Overall Means	9.21		
(SD)	(4.29)		
	n=67		

Panel B: ANOVA Results

	F	p-value
Presence	0.58	0.450
Prepare	1.54	0.220
Presence * Prepare	0.07	0.794

This table provides descriptive statistics and ANOVA results of participants' self-assessed level of experience related to workpapers. Task familiarity is a consolidated measure ranging scale from 1 (none) to 28 (very experienced). All p-values are two-tailed.

TABLE 5.3

Univariate Results: Distractibility

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**			
Mean	30.33	30.25	30.29
(SD)	(4.88)	(5.85)	(5.27)
	n=18	n=16	n=34
Stage 1 Task **Prepare**			
Mean	29.26	27.43	28.48
(SD)	(6.18)	(9.44)	(7.65)
	n=19	n=14	n=33
Column Means	29.78	28.93	
(SD)	(5.53)	(7.73)	
	n=37	n=30	
Overall Means	29.40		
(SD)	(6.57)		
	n=67		

Panel B: ANOVA Results

	F	p-value
Presence	0.35	0.558
Prepare	1.43	0.237
Presence * Prepare	0.29	0.593

This table provides descriptive statistics and ANOVA results of participants' self-assessed level of distractibility. All p-values are two-tailed.

TABLE 6.1

Total Seeded Errors ANOVA Results including all Covariates: Experience, Task Familiarity, and Distractibility

	F	p-value
Audit Experience	0.23	0.630
Task Familiarity	>0.01	0.963
Distractibility	0.23	0.597
Presence	5.54	0.011*
Prepare	0.43	0.257*
Presence*Prepare	1.94	0.085*

This table provides ANOVA results of the total number of seeded errors identified by participants. P-values marked with an * are one-tailed, consistent with directional hypothesis.

TABLE 6.2

Total Seeded Errors ANOVA Results including individual Covariates: Experience, Task Familiarity, and Distractibility

Panel A: Audit Experience included as a covariate

	F	p-value
Audit Experience	0.30	0.586
Presence	5.57	0.010*
Prepare	0.37	0.272*
Presence * Prepare	1.90	0.087*

Panel B: Task Familiarity included as a covariate

	F	p-value
Task Familiarity	0.20	0.654
Presence	5.58	0.010*
Prepare	0.45	0.252*
Presence * Prepare	1.93	0.085*

Panel C: Distractibility included as a covariate

	F	p-value
Distractibility	0.18	0.103
Presence	5.55	0.011*
Prepare	0.65	0.212*
Presence * Prepare	1.96	0.084*

This table provides ANOVA results of the total number of seeded errors identified by participants. P-values marked with an * are one-tailed, consistent with directional hypothesis.

TABLE 7.1

Mechanical Seeded Errors ANOVA Results including all Covariates: Experience, Task Familiarity, and Distractibility

	F	p-value
Audit Experience	0.40	0.531
Task Familiarity	>0.01	1.000
Distractibility	0.03	0.859
Presence	7.12	0.005*
Prepare	3.05	0.043*
Presence*Prepare	5.71	0.010*

This table provides ANOVA results of the number of mechanical seeded errors identified by participants. P-values marked with an * are one-tailed, consistent with directional hypothesis.

TABLE 7.2

Mechanical Seeded Errors ANOVA Results including individual Covariates: Experience, Task Familiarity, and Distractibility

Panel A: Audit Experience included as a covariate

	F	p-value
Audit Experience	0.79	0.379
Presence	7.39	0.005*
Prepare	3.12	0.041*
Presence * Prepare	5.87	0.009*

Panel B: Task Familiarity included as a covariate

	F	p-value
Task Familiarity	0.41	0.526
Presence	7.29	0.005*
Prepare	3.55	0.032*
Presence * Prepare	5.91	0.009*

Panel C: Distractibility included as a covariate

	F	p-value
Distractibility	>0.01	0.993
Presence	6.94	0.006*
Prepare	3.92	0.026*
Presence * Prepare	5.75	0.010*

This table provides ANOVA results of the number of mechanical seeded errors identified by participants. P-values marked with an * are one-tailed, consistent with directional hypothesis.

TABLE 8.1

Conceptual Seeded Errors ANOVA Results including all Covariates: Experience, Task Familiarity, and Distractibility

	F	p-value
Audit Experience	>0.01	0.935
Task Familiarity	>0.01	0.959
Distractibility	0.10	0.751
Presence	0.91	0.172*
Prepare	0.71	0.401*
Presence*Prepare	0.13	0.362*

This table provides ANOVA results of the number of seeded errors identified by participants. P-values marked with an * are one-tailed, consistent with directional hypothesis.

TABLE 8.2

Conceptual Seeded Errors ANOVA Results including individual Covariates: Experience, Task Familiarity, and Distractibility

Panel A: Audit Experience included as a covariate

	F	p-value
Audit Experience	0.02	0.890
Presence	0.89	0.175*
Prepare	0.81	0.187*
Presence * Prepare	0.15	0.350*

Panel B: Task Familiarity included as a covariate

	F	p-value
Task Familiarity	>0.01	0.988
Presence	0.90	0.173*
Prepare	0.89	0.175*
Presence * Prepare	0.15	0.350*

Panel C: Distractibility included as a covariate

	F	p-value
Distractibility	0.14	0.710
Presence	0.96	0.166*
Prepare	0.79	0.195*
Presence * Prepare	0.13	0.359*

This table provides ANOVA results of the number of conceptual seeded errors identified by participants. P-values marked with an * are one-tailed, consistent with directional hypothesis.

Time on Task 1

The time spent on an experiential learning task is commonly associated with increased subsequent performance by accounting (Salterio 1994) and psychology research (Shell et al. 2010). To rule out increased time on Task 1 as a potential confound with the experiential learning manipulation (i.e., reviewing or preparing in Task 1), I examine the mean time on Task 1, as recorded by Qualtrics, across experimental conditions. The overall mean time on Task 1 is 22.8 minutes. In an analysis of variance, there is no significant effect of condition on the time spent on Task 1, see Table 9. Accordingly, it appears that the experiential learning manipulation is not confounded with time on Task 1.

TABLE 9

Univariate Results: Time on Task 1

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**			
Mean	20.55	23.49	21.93
(SD)	(9.28)	(8.14)	(8.76)
	n=18	n=16	n=34
Stage 1 Task **Prepare**			
Mean	22.77	25.09	23.76
(SD)	(8.94)	(7.43)	(8.29)
	n=19	n=14	n=33
Column Means	21.69	24.23	
(SD)	(9.05)	(7.73)	
	n=37	n=30	
Overall Means	22.73		
(SD)	(8.52)		
	n=67		

Panel B: ANOVA Results

	F	p-value
Presence	1.55	0.217
Prepare	0.82	0.368
Presence * Prepare	0.02	0.884

This table provides descriptive statistics and ANOVA results of participants' time (in minutes) spent on Task 1. All p-values are two-tailed.

Time on Task 2

I examine participant time on Task 2 as a proxy for effort. To rule out increased time on Task 2 as a potential explanation for the results noted in Chapter 4, I examine the mean time on Task 2, as recorded by Qualtrics, across experimental conditions. The overall mean time on Task 2 is 16.2 minutes, see Table 10.1. In an analysis of variance, there is no significant effect of task-specific experience on the time spent during Task 2 (p-value = 0.74). However, there is a significant effect of the presence of a high-ranking auditor on the time spent during Task 2 (p-value = 0.02). Accordingly, I examine time on Task 2 as a potential covariate and find that including participants' time on Task 2 as a covariate, does not change inferences made on Chapter 4, see Table 10.2.

TABLE 10.1

Univariate Results: Time on Task 2

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**			
Mean	14.98	17.98	16.39
(SD)	(5.79)	(5.05)	(5.58)
	n=18	n=16	n=34
Stage 1 Task **Prepare**			
Mean	15.37	18.44	16.67
(SD)	(4.83)	(5.31)	(5.19)
	n=19	n=14	n=33
Column Means	15.18	18.19	
(SD)	(5.24)	(5.09)	
	n=37	n=30	
Overall Means	16.52		
(SD)	(5.35)		
	n=67		

Panel B: ANOVA Results

	F	p-value
Presence	5.52	0.022
Prepare	0.12	0.744
Presence * Prepare	>0.01	0.979

This table provides descriptive statistics and ANOVA results of participants' time (in minutes) spent on Task 1. All p-values are two-tailed.

TABLE 10.2

ANOVA Results including Time on Task 2 as a Covariates

Panel A: Total Seeded Error Identified

	F	p-value
Time on Task 2	2.99	0.089
Presence	3.22	0.029*
Prepare	0.48	0.245*
Presence * Prepare	1.96	0.084*

Panel B: Mechanical Seeded Error Identified

	F	p-value
Time on Task 2	7.75	0.007
Presence	3.60	0.032*
Prepare	4.02	0.025*
Presence * Prepare	6.45	0.007*

Panel C: Conceptual Seeded Errors Identified

	F	p-value
Time on Task 2	>0.01	0.997
Presence	0.83	0.182*
Prepare	0.90	0.173*
Presence * Prepare	0.15	0.350*

This table provides ANOVA results, including Time on Task 2 as a covariate, of the number of seeded errors identified by participants. P-values marked with an * are one-tailed, consistent with directional hypothesis.

Pretest/Posttest

The apprenticeship model allows auditors to develop technical knowledge and skills through on-the-job learning (Westermann et al. 2015). In this study, I examine participants' task-specific knowledge ex-ante and ex-post, analyzing the results between and within subjects. To rule out prior task-specific knowledge as a potential confound with experiential learning manipulation, I examine the results of the task-specific knowledge pretest. The overall mean score is 15.42 correct (out of 20 possible points), and the results of an analysis of variance, indicate no significant differences in pretest scores across conditions, see Table 11.1. Further, including participants' pretest score as a covariate, does not change inferences made on Chapter 4, see Table 11.2.

TABLE 11.1

Univariate Results: Pretest

Panel A: Mean (Std. Dev.)

	High-ranking Auditor **Absent**	High-ranking Auditor **Present**	Row Means (SD)
Stage 1 Task **Review**			
Mean	14.72	14.88	14.79
(SD)	(3.46)	(3.05)	(3.22)
	n=18	n=16	n=34
Stage 1 Task **Prepare**			
Mean	15.89	16.29	16.06
(SD)	(2.47)	(2.16)	(2.32)
	n=19	n=14	n=33
Column Means	15.32	15.53	
(SD)	(3.01)	(2.73)	
	n=37	n=30	
Overall Means	15.42		
(SD)	(2.87)		
	n=67		

Panel B: ANOVA Results

	F	p-value
Presence	0.15	0.700
Prepare	3.38	0.071
Presence * Prepare	0.03	0.866

This table provides descriptive statistics and ANOVA results of participants' pretest score. All p-values are two-tailed.

TABLE 11.2

ANOVA Results including Pretest score as a Covariates

Panel A: Total Seeded Error Identified

	F	p-value
Pretest	3.71	0.059
Presence	5.28	0.013*
Prepare	0.10	0.376*
Presence * Prepare	1.88	0.088*

Panel B: Mechanical Seeded Error Identified

	F	p-value
Pretest	1.06	0.308
Presence	6.82	0.006*
Prepare	3.01	0.044*
Presence * Prepare	5.76	0.010*

Panel C: Conceptual Seeded Errors Identified

	F	p-value
Pretest	3.58	0.063
Presence	0.78	0.190*
Prepare	1.91	0.086*
Presence * Prepare	0.19	0.331*

This table provides ANOVA results, including pretest score as a covariate, of the number of conceptual seeded errors identified by participants. P-values marked with an * are one-tailed, consistent with directional hypothesis.

Task-related experience develops task-related knowledge (i.e., Bonner and Walker 1994; Herz and Schultz 1999). Specifically, several studies have demonstrated that procedural knowledge can be acquired from one task (e.g., Ahn et al. 1992; Westermann 2016). In a within-subjects analysis of variance, there is no significant effect of condition on the declarative knowledge portion of the pre/posttest score ($p = 0.131$), see Table 12, Panel B. However, a within-subjects analysis of variance, provides support of an interacting effect of condition on the procedural knowledge portion of the pre/posttest score ($p = 0.034$), see Table 12.

TABLE 12

Repeated Measures ANOVA Results for Pretest/Posttest scores

Panel A: Total Score

	F	p-value
Pretest/Posttest	0.57	0.455
Presence	0.88	0.176 *
Prepare	0.07	0.400*
Presence * Prepare	>0.01	0.472*

Panel B: Declarative Score

	F	p-value
Pretest/Posttest	0.05	0.833
Presence	0.85	0.181*
Prepare	0.11	0.268*
Presence * Prepare	1.28	0.131*

Panel C: Procedural Score

	F	p-value
Pretest/Posttest	1.07	0.306
Presence	0.08	0.390*
Prepare	>0.01	0.477*
Presence * Prepare	3.47	0.034*

This table provides within subjects ANOVA results for pretest/posttest score. All P-values use the Greenhouse-Geisser test. P-values marked with an * are one-tailed, consistent with directional hypothesis

CHAPTER 6

CONCLUSION

This study examines two potential effects of off-site audit work on the judgment quality and development of staff auditors. First, I consider the effects of experiential learning that reviewing auditors may miss as basic tasks are moved to service centers. Second, I examine the effects of the presence vs. the absence of high-ranking auditors on the judgment quality of staff auditors. By examining the potential unintended consequences resulting from the increase in off-site audit work, this study contributes to the profession and auditing literature in several ways. First, this study contributes to the base-level understanding of how the use of service centers for basic audit tasks affects staff auditors. Further, I anticipate that audit firms may examine how the labor-cost reductions realized from service centers might be offset by the increased cost of training and development of on-site staff auditors. Additionally, by examining how changes in the experiential learning opportunities affect a reviewing auditor's judgment quality, the results of this study extend prior audit literature (e.g., Libby 1995; Bonner 2008). Finally, this study provides insight into the social effects of the presence of a high-ranking auditor on the judgment quality of staff auditors.

This study is subject to several limitations, several of which provide an opportunity for future research. Foremost, given the scope of this study, I am unable to test if missing experiential learning early in an auditor's career persists into the long-term. Future research could examine whether knowledge acquisition and technical skills develop over a long period to compensate for the experiential learning losses due to off-site audit work. Additionally, I

examine the effects of off-site audit work on the review of substantive testwork in only one audit area (i.e., investments). Perhaps future research could examine whether the findings of this study can be generalized to the review of substantive testwork in other audit areas as well as controls testing. Further, future research could explore how experience in preparing workpapers in an audit area transfers to a review task in a different audit area. Finally, I hold constant the physical presence and the lack of previous interactions between the participant and the confederate. When examining auditor judgment quality, future research could consider positive and negative prior interactions and, consistent with Aiello and Douthitt (2001), the "electronic" presence of another auditor.

Limitations and Opportunities for Further Research

This study is subject to several limitations, several of which provide an opportunity for future research. Foremost, given the scope of this study, I am unable to test if missing experiential learning early in an auditor's career persists into the long-term. Future research could examine whether knowledge acquisition and technical skills develop over a long period to compensate for the experiential learning losses due to off-site audit work. Additionally, I examine the effects of off-site audit work on the review of substantive testwork in only one audit area (i.e., investments). Perhaps future research could examine whether the findings of this study can be generalized to the review of substantive testwork in other audit areas as well as controls testing. Further, future research could explore how experience in preparing workpapers in an audit area transfers to a review task in a different audit area. Finally, I hold constant the physical presence and the lack of previous interactions between the participant and the confederate. When examining auditor judgment quality, future research could consider positive and negative prior

interactions and, consistent with Aiello and Douthitt (2001), the “electronic” presence of another auditor.

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APPENDIX A

KNOWLEDGE PRETEST AND POSTTEST QUESTIONS

This first section includes a few questions about your understanding of assets and related audit testwork. Please do your best.

NEXT

On December 31, 2014, ABC Co. had investments in trading securities as follows:

	Fair Market Value	Cost
Pink, Inc.	$ 11,000	$ 9,000
Sim Co.	10,000	11,000
Beard Corp.	12,500	11,500

ABC's December 31, 2014 balance sheet should report the trading securities as:

- $31,500
- $32,500
- $33,500
- $34,500

NEXT

Select the audit procedure that is best suited for testing the following assertion:
Recorded investments represent investments actually owned at the balance-sheet date.

Verify that transfers from the trading portfolio to the held-to-maturity investment portfolio have been properly recorded.

Obtain positive confirmations as of the balance sheet date of investments held by independent custodians.

Determine whether any other-than-temporary impairments in the carrying value of investments have been properly recorded.

Trace opening balances in the general ledger to prior-year audit documentation.

NEXT

Confirming the units/shares of marketable securities (i.e., investments) would test which financial statement assertion?

Completeness

Existence

Valuation

Obligation

NEXT

What is the proper description and treatment of the three classification of securities?
(Note: each descriptor may be used more than once or not at all.)

	Assessment Guidelines			Book value should reflect:			Unrealized gains and losses are:		
	Intent to buy/sell for short-term profits	Default Category	Intent to buy and hold	Fair market value	Lower of cost or market	Original cost	included in earnings	included in shareholders' equity	not recorded
Trading	○	○	○	○	○	○	○	○	○
Available for Sale	○	○	○	○	○	○	○	○	○
Held to Maturity	○	○	○	○	○	○	○	○	○

NEXT

Which of the following is not one of the auditor's primary objectives in an examination of marketable securities?

To determine whether securities are authentic.

To determine whether securities are properly classified on the balance sheet.

To determine whether securities are the property of the entity.

To determine whether securities actually exist.

NEXT

Which of the following assertions is relevant to whether the marketable securities balances include all securities transactions that have taken place during the period?

- Existence/occurrence
- Completeness
- Rights and obligations
- Valuation or allocation

NEXT

If an auditor discovers that the book values of a client's investments is overstated because of a non-temporary decline in market value, they should _____.

- recommend that investments be classified as long term for balance sheet purposes with full disclosure in the footnotes
- recommend that the approximate market value of the investments be shown in parentheses on the face of the balance sheet
- propose an adjustment so that the loss in value is recognized in the financial statements
- pass on further work

NEXT

Short-term investments can best be described as:

amount of money paid in by investors during common or preferred stock issuance

investments purchased within one year of maturity

investments that a company intends to hold for more than a year

a distribution of a portion of a company's earning

NEXT

In Year One, an investor buys shares of Company X for $6,000 and shares of Company Y for $11,000. By the end of that year, each of the investments has increased in value by $2,000. During Year Two, the shares of Company X are sold for $10,100. If these investments are viewed as trading securities, what income is recognized by the investor in its income statement as a result of this sale?

-0-

$100

$2,100

$4,100

NEXT

Statement of Financial Accounting Standards (SFAS) No. 157 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Match the definition to the asset type. (Use each defination only once.)

Items

These assets have prices that "are directly observable... as well as inputs that are not directly observable." These inputs "are derived principally from or corroborated by observable market data."

These assets have prices that can be difficult to determine as pricing models include "significant unobservable inputs." Further, "there might be little, if any, market activity for these assets at the measurement date."

These assets have "quoted prices in active markets...which are easy to obtain and are reliable and verifiable."

Level 1 Asset

Level 2 Assets

Level 3 Assets

NEXT

APPENDIX B

RESEARCH INSTRUMENT – TASK 1

This appendix presents the independent variable portion of the research instrument (beginning on the next page) provided to participants.

Thank you again for participating in this research project.

This computer program will guide you through two simulated audit tasks each for a different hypothetical client. For the purposes of this project, **please assume the role of a new staff-level auditor at JonesMillerDavis, LLP** (a hypothetical large international public accounting firm).

During the case, you will be asked to make decisions regarding **two audit tasks**. Please your best to complete your work for **each task within 25 minutes**, spending no more then 50 minutes in total. You should be able to draw on your accounting and auditing knowledge and professional judgment, while using only the fact presented in this case to make these decisions.

It is very important that you do not discuss any details of this case until everyone has had a chance to participate.

Use the buttons at the bottom of the screens to navigate between screens. To receive credit for participating please enter your participant number below AND the provide code from the final screen to the proctor upon completion.

Once you are ready, please enter your Participant Number and click "NEXT" to begin the case.

NEXT

{The participant number is coded to lead participants to one of the following statements}

{Alone condition}

Use of Computer

As in practice, your work during this research study will be completed via computer. Additionally, as sometimes happens in practice, the senior and manager you report to are not on-site.

NEXT

{High-ranking Auditor Present condition}

Use of Computer and Live Persons

As in practice, your work during this research study will be completed via computer. Additionally, as sometimes happens in practice, the senior and manager you report to are not on-site.

However, you will conduct your work in an office with another person. This person is assuming the role of an audit manager on the same clients, but is in charge of auditors working in another location. In actuality, this person is an experienced accounting professional who has been provided with limited information in this case. This person will not review your work.

NEXT

{After this participants will either PREPARE or REVIEW marketable securities substantive testwork in Task 1}

REVIEW CONDITION

PREPARE CONDITION

The audit senior (Sam Rodgers) just sent you an email.

Hello,

Welcome to the firm! I'm sorry I am not out there with you. I'm working on another project and I'll be there tomorrow. In the meantime, please concentrate on testwork over marketable securities. You will be working on 2 different clients: Halcyon Boards and Kinetic Canoes.

I've worked on both of these clients for the past 3 years and they are similar in that they manufacture outdoor sports equipment. However, they are separate entities and NOT related in any way. So please do your best to keep them separate.

I'd like to you to start by **preparing** the marketable securities testwork for Halcyon Boards. After you finish, I'll provide you some feedback. Then, I'd like you to review the marketable securities testwork for Kinetic Canoes. For both these clients, all footing and cross-footing has been completed and reviewed by our offshore team. Please assume **all footing and cross-footing is correct**. Please do not spend your valuable time recalculating footing or cross-footing, as this has already been completed by our offshore team.

Please limit your time to 25 minutes on <u>each</u> client. This might seem daunting, but I heard you are sharp and a hard worker. I have complete confidence in you.

Also, Lynn Ramirez, a manager, will be working in the conference room as well. However, she oversees other areas and will not be reviewing your work.

Only included in the "Other Auditor Present" condition.

Regards,
SR
Sam Rodgers
Audit Senior
JonesMillerDavis, LLP

Audit Task: You have been assigned to Investments testwork. Specifically, you have been asked to prepare testwork over marketable securities.

Investments Testwork for Halcyon Boards, Inc.

This **first audit task** is concerned with the role of the audit process in detecting material misstatements. Specifically, this task relates to the audit of investment in marketable securities for Halcyon Boards, Inc. You have been assigned to **PREPARE** WORKPAPERS and complete the following:

1. Prepare the working papers, which include the audit program for marketable securities, unaudited balance sheet and income statement, preformatted audit memo, schedules, and supporting documents.
2. Perform and document procedures outlined in the audit memo (I-01) using the form on the next screen.
3. Make a final judgment about (a) the likelihood of material misstatements in the financial statements and (b) the likelihood that you detected such misstatements, if they exist.

As a staff auditor, you are aware that the audit senior may review your work.

Overview of Audit Client:
Halcyon Boards, Inc. (HBI) has been an audit client of the firm for several years. HBI manufactures paddle boards for a variety water conditions and experience levels. Its customer base includes both domestic and international customers. HBI has a 12/31 fiscal year-end.

HBI's business operations are seasonal, which produces large amounts in idle funds to be invested temporarily in the fall and winter. HBI's treasurer usually invests in marketable securities in mid-August and holds them until mid-January. They are sold in late January and February to finance spring inventories. As management's focus is on short-term investments with minimal risk, the portfolio is limited to debt securities rated AA and above, and common stocks of "blue-chip" companies.

This is your first week as a staff level auditor on the HBI audit engagement.

On the next screen you will find a pre-formatted audit memo where you will document testwork completed. If you do not identify issues when preforming a procedure, please type "None" in the issues noted block.
Please use the hyperlinks below to download the following (you will need ALL of these files, before you proceed:

GA-01 Unaudited Financial Statements
I-APG Audit Program
I-00 Lead Sheet
I-02 Schedule of Marketable Securities
I-03 Brokerage Statement
I-04 Supporting Documentation from NYSE.com

Email from Senior Auditor, Sam Rodgers
Client background
List of Standard Tickmarks

All necessary documents have been provided electronically. Please base your responses on ONLY YOUR understanding of the materials provided and do not use any outside resources, other than a calculator.

Note:
Audit procedure #1.00 has been completed is signed off by the audit senior, Sam Rodgers.
Audit procedure #1.01 has been completed is signed off by the offshore team. You do not need to check footing or cross-footing. Please do not spend your valuable time recalculating footing or cross-footing, as this has already been completed by our offshore team.
Audit procedure #3.00 has been completed is signed off by the audit senior, Sam Rodgers. You do not need to any work over this step.
Audit procedure #5.00 cannot be completed at this time, please skip it.

STANDARD TICKMARKS

^	Footed.
<	Cross-footed.
✓	Agreed to supporting documentation, without exception.
Rx	Recalculated, no exceptions.
GL	Agreed to the current year general ledger, without exception.
PY	Agreed to the prior year, without exception.
NA	Not applicable.
∑	Sum of.
FYE	Fiscal year-end.
PBC	Prepared by Client.
APG	Audit Program.
p/f/w	Pass on further work.
w/o/e	Without exception (no exception noted).
w/o/m/e	Without material exception (immaterial exception noted).
imm	Immaterial (difference is below audit misstatement posting threshold).
♌	Re-preformed as part of the review process.

NOTE:
All other tickmarks should be represented by a number inside a circle, i.e., ①.

Halcyon Boards, Inc.
Balance Sheet
As of December 31, 2014
(In thousands)

Account #	Account Title	2014 Unaudited		2013 Audited	
ASSETS					
10100	Cash and Cash Equivalents	12,625		11,665	
10500	Investments in marketable securities	2,545	I-00	2,540	I-00
11000	Accounts Receivable (net)	9,572		9,505	
11500	Other Receivable (net)	63		56	
12000	Inventory (net)	14,718		14,504	
	Total Current Assets	39,524		38,270	
15000	Property, Plant & Equipment (net)	2,897		2,789	
Total Assets		42,421		41,059	
LIABILITIES AND STOCKHOLDER'S EQUITY					
20000	Accounts Payable	3,007		2,663	
21000	Other Current Payables	65		52	
	Total Current Liabilities	3,072		2,715	
26000	Notes Payable - Noncurrent	10,300		10,300	
Total Liabilities		13,372		13,015	
30000	Stockholders' Equity	29,049		28,044	
Total Liabilities and Stockholders' Equity		42,421		41,059	

Halcyon Boards, Inc.
Income Statement
For the year ended December 31, 2014
(In thousands)

Account #	Account Title	2014 Unaudited		2013 Audited	
REVENUE					
40000	Sales - Net	205,324		204,673	
	Net Sales	205,324		204,673	
EXPENSES					
50000	Cost of Goods Sold	154,405		153,569	
	Gross Margin	50,919		51,104	
OPERATING EXPENSES					
60000	Salaries and Wages Expense	28,018		27,763	
61000	Other Operating Expenses	17,187		16,731	
	Total Operating Expenses	45,205		44,494	
	Net Income from Operations	5,714		6,610	
OTHER INCOME/(EXPENSE)					
47000	Interest and dividends earned	55	I-00	61	I-00
68000	Interest expense	(1,945)		(1,876)	
70000	Gain/(Loss) on disposal of investments	33	I-00	13	I-00
80000	Loss on decline in market value of securities	-	I-00	(10)	I-00
	Net Income before Tax	3,857	I-APG	4,798	
78000	Income Tax Expense	(1,157)		(1,439)	
Net Income		2,700		3,359	

JonesMillerDavis, LLP

CLIENT:	FYE:	WP TITLE:	Workpaper Reference:
Halcyon Boards, Inc.	12-31-2014	Marketable Securities Audit Program	I-APG

	Audit Objectives:	Assertion(s)
1	The balances reflect a complete listing of investments, and the company's ownership of such assets is evidenced by securities or other appropriate legal documents either physically on hand or held in safekeeping by others.	E, C , R/O
2	Asset values, investment income or loss, valuation allowances, gains or losses on sales of investments, and changes in fair value are recorded and presented in accordance with GAAP.	A, V
3	Investments are properly described and classified in the balance sheet, and disclosures have been made for any restrictions, pledges, or liens against the assets. The disclosures required by GAAP have been made.	P/D, A, C, V

Steps	Audit Procedure	Assertion(s)	Sign-off	W/P Ref
1.00	Obtain a schedule of all marketable securities of investments, including purchase and disposition information for the period.	C	SP	I-02
1.01	Test the clerical accuracy.	A, C, V	OT #3498	I-02
1.02	Reconcile amounts to the general ledger.	E, V		
1.03	Determine that the following accounts are identified for specific classification: Equity Securities and Debt Securities.	P/D		
1.04	Verify the existence of securities by either: (a) inspect securities if maintained by client or (b) confirming the existence with trustees holding them.	E		
1.05	Agree the cost of recorded investments to brokers' reports, canceled checks, or other supporting documentation.	E, R/O		
1.06	Determine current market value through reference to a financial reporting service or a similar source.	V		
1.07	Verify sales price by examining invoices or broker's statement.	V		
1.08	Determine whether unrealized gains and losses are properly accounted for.	V		
1.09	Recompute interest and determine that accrued interest is properly recorded at year-end.	A, V		
1.10	Verify dividend income with a third-party dividend reporting service..	C, V		
2.00	Examine brokers' statement(s) for the period end and cross-reference to client provided schedule.	A, C	R/T	
3.00	Examine selected documents to determine if any securities have been pledged as collateral by: (a) asking management; and (b) reviewing board of directors' minutes, loan agreements, and other documents.	R/O	SP	GA-03
4.00	Review and inquire of management's intent to hold securities and review for proper classification of investments (e.g., Trading, Available for Sale, and Held to Maturity).	A, P/D		
5.00	Review footnotes to insure required disclosures: (a) have been made and are understandable and (b) are accurate and properly presented at the appropriate amounts.	P/D, A, C, V	Please skip this step. I will complete later. SP	

FINANCIAL STATEMENT ASSERTIONS

A	Accuracy
C	Completeness and cutoff
E	Existence
P/D	Presentation and disclosure
R/O	Rights and obligations
V	Valuations and allocation

—Materiality—		
Measurement Base		
Pretax income	GA-01 p2	3,857,000
Percentage Applied		4.5%
Calculated Planning Materiality (4.5% of Pretax Income)		173,565
Overall (planning) Materiality (4.5% of Pretax Income, rounded)		173,000
Audit Misstatement Posting Threshold (5% of Overall Materiality)		**8,650**

NOTE: Any audit difference greater than the audit misstatement posting threshold would require an adjusting entry.

JonesMillerDavis, LLP

Prepared by:

CLIENT:	FYE:	Workpaper Review:
Halcyon Boards, Inc.	12/31/14	I-00

Investments in Marketable Securities Lead Sheet

Account No.	Account Name	12/31/2014 Balance	12/31/2013 Balance
10500	Investments in marketable securities	2,546,000.00	2,540,000.00
47000	Interest and dividends earned	54,517.50	60,800.00
70000	Gain/(Loss) on disposal of investments	33,045.00	12,950.00
80000	Loss on decline in market value of securities	-	(10,208.00)
	Group Total	2,633,562.50 ^	2,603,542.00 ^

Tickmark legend

^ Footed, without exception

JonesMillerDavis, LLP

Prepared by:

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards, Inc.	12/31/2014	SCHEDULE OF INVESTMENTS IN MARKETABLE SECURITIES - PBC	I-02

Summary of Marketable Securities
Year Ended December 31, 2014

PBC

			Purchases			Disposals						Income		
Security	A Shares or Par Value	B Beginning Balance	Date	C Shares or Par Value	D Amount	Date	E Shares or Par Value	F Amount	G = F - B Gain/(Loss) Disposal	H =B+D-F+G Ending Balance	I Market Value (12/31)	J=(units*rate)/12 *months owned Interest	K=(shares* dividend) Dividends	L = J + K Total
Equity Securities:														
Time Warner Cable (TWC)	3,500	650,000.00	10/01/13	-	-	03/03/14	3,500	642,985.00	(7,015.00)	- <	-	-	1,347.50	1,347.50 <
Home Depot (HD)	9,000	840,000.00	10/31/13	-	-	03/14/14	9,000	890,010.00	50,010.00	-	-	-	-	-
Exxon Mobil Corp. (XOM)	-	-	08/29/14	5,000	481,000.00	-	-	-	-	481,000.00	487,900.00	-	9,050.00	9,050.00
McGraw-Hill Financial (MHFI)	-	-	08/29/14	12,000	750,000.00	-	-	-	-	750,000.00	743,160.00	-	9,120.00	9,120.00
Debt Securities:														
AT&T 6% Debenture bonds	1,100,000.00	1,050,000.00	08/30/13	-	-	02/15/14	1,100,000.00	1,040,050.00	(9,950.00)	-	-	11,000.00	-	11,000.00
UPS (UPS) 9% Debenture bonds	-	-	10/31/14	400,000.00	415,000.00	-	-	-	-	415,000.00	410,080.00	9,000.00	-	9,000.00
Allstate (ALL) 10% Debenture bonds	-	-	10/31/14	900,000.00	900,000.00	-	-	-	-	900,000.00	905,040.00	15,000.00	-	15,000.00
		2,540,000.00 ^			2,546,000.00 ^			2,573,045.00 ^	33,045.00 ^	2,546,000.00 ^	2,546,160.00 ^	35,000.00 ^	19,517.50 ^	54,517.50 ^

Market Value	2,546,160.00
Book Value	*2,546,000.00
Difference	160.00 ^

Tickmark legend

^ Footed, without exception

< Cross-footed, without exception

SOURCE: Obtained directly from Financial Investments.

WP: I-03
Prepared by:

Financial
INVESTMENTS

Brokerage Account Statement
January 1, 2014 - December 31, 2014

Envelope 021021227

#BWNFRK8

Halcyon Boards, Inc.
Treasurer
123 West St.
SOMETOWN, US 01234I

Online	Fininv.com
FAST(sm)-Automated Telephone	855-555-5555
Customer Service	855-555-5550

Your Advisor
INVESTMENT MANAGEMENT
267 UPTHE ROAD
SOMETOWN, US 012345
PHONE: (555)555-0555

Your Portfolio Summary

Home Depot (HD)

Beginning value as of Jan 1	$2,540,000.00
Ending value as of Dec 31	**$2,546,000.00**
Change in investment value	$6,000.00

Value by Account

General Investment	Account Number	Net Value January 1, 2014	Net Value December 31, 2014
Financial Account	111-11-1111	$2,540,000.00	$2,546,000.00
Total Portfolio Value		$2,540,000.00 ^	**$2,546,000.00** ^

TICKMARKS
^ Footed.
< Cross-footed.

Income Summary

	Year to Date
Taxable	$52,547.50
Tax-exempt	-
Total	$54,517.50 ^

SOURCE: Obtained directly from Financial Investments.

WP: I-03

Financial
INVESTMENTS

Brokerage Account Statement
January 1, 2014 - December 31, 2014

Your Portfolio Detail

Financial Account 111-11-1111 Halcyon Boards, Inc.

Account Summary		**Income Summary**	
			Year to Date
Beginning value as of Jan 1	$ 2,540,000.00	Tax-Exempt	-
Withdrawals	- 2,573,045.00	Dividends	19,517.50
Deposits	2,546,000.00	Interest	35,000.00
Change in investment value	33,045.00	**Total**	**54,517.50**
Ending value as of Dec 31	**$ 2,546,000.00**		

Holdings (Symbol) as of December 31,2014	Quantity 12/31/2014	Price per Unit 12/31/2014	Total Cost Basis	Total Value 12/31/2014
	A	B	C	D=AxB
Stocks 47.3% of holdings				
Exxon Mobil Corp. (XOM)	5,000.00	$ 97.580	$ 481,000.00	$ 487,900.00
McGraw-Hill Financial (MHFI)	12,000.00	$ 61.930	$ 750,000.00	$ 743,160.00
Bonds 51.7% of holdings				
UPS (UPS19) 9% Debenture bonds 09.000% 10/15/2019 Aa FXIC INSURED	4,000.00	$ 102.520	$ 415,000.00	$ 410,080.00
Allstate (ALL18) 10% Debenture bonds 10.000% 05/15/2018 Aa FXIC INSURED	9,000.00	$ 100.560	$ 900,000.00	$ 905,040.00

00001 060228 0001 02 1021227 04 108 000

SOURCE: Obtained directly from Financial Investments.

WP: I-03

Financial INVESTMENTS

Brokerage Account Statement
January 1, 2014 - December 31, 2014

Your Portfolio Detail

Financial Account 111-11-1111 Halcyon Boards, Inc.
Transaction Details (for holdings with activity this period)

Brokerage Activity

Settlement Date	Security	Description	A Quantity	B Price per Unit	C Cost	D = A x B Transaction Amount	E = D - C Transaction Profit/(Loss)
2/15	AT&T (ATT21) 8% Debenture bonds	You sold	-11,000 *	$ 94.550	$ 1,050,000.00	$ 1,040,050.00	$ -9,950.00
2/15	AT&T (ATT21) 8% Debenture bonds	Interest received				11,000.00	
2/15	Time Warner Cable (TWC) - dividend of $00.3850 per share	Dividend received				1,347.50	
3/3	Time Warner Cable (TWC)	You sold	-3,500	183.710	650,000.00	642,985.00	-7,015.00
3/14	Home Depot (HD)	You sold	-9,000	98.890	840,000.00	890,010.00	50,010.00
8/29	Exxon Mobil Corp. (XOM)	You bought	5,000	96.200		481,000.00	
8/29	McGraw-Hill Financial (MHFI)	You bought	12,000	62.500		750,000.00	
10/31	Allstate (ALL18) 10% Debenture bonds	You bought	9,000 *	100.000		900,000.00	
10/31	UPS (UPS19) 9% Debenture bonds	You bought	4,000 *	103.750		415,000.00	
12/30	Allstate (ALL18) 10% Debenture bonds	Interest received				15,000.00	
12/31	UPS (UPS19) 9% Debenture bonds	Interest received				9,000.00	
12/31	Exxon Mobil Corp. (XOM) - dividend of $01.8100 per share	Dividend received				9,050.00	
12/31	McGraw-Hill Financial (MHFI) - dividend of $00.7600 per share	Dividend received				9,120.00	

* par value for debenture bonds is $100.000 per unit.

00001 060228 0001 021021227 04 108 000

Page 3 of 3

JonesMillerDavis, LLP

Prepared by:

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	12/31/2014	MARKETABLE SECURITIES-STOCKS	I-04a

Source: These SinpIts were obtained directly from NYSE.com.
Purpose: To verify trading price on 12/31/14 and dividends declared in 2014.

NYSE 1/23/15, 1:04 PM

NEW YORK STOCK EXCHANGE

EXXON MOBIL CORP. (XOM)

QUOTE (/QUOTE/XNYS:OXM) COMPANY INFORMATION (/XNYS:OXM/COMPANY)

HISTORICAL PRICE

DATE	OPEN	LOW	HIGH	CLOSE	VOLUME	ADJ CLOSE
Dec 31, 2014	97.14	96.83	97.61	97.58	998773	97.58

Dividend History for January, 1 2014 - December 31, 2014

Payable	Amount	Ex-Date	Record	Declaration	Dividend Type
12/18/2014	$01.810	12/2/2014	12/4/2014	11/20/2014	Cash

https://www.nyse.com/quote/XNYS:OXM

JonesMillerDavis, LLP

Prepared by:

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	12/31/2014	MARKETABLE SECURITIES-STOCKS	I-04b

Source: These Sinplts were obtained directly from NYSE.com.
Purpose: To verify trading price on 12/31/14 and dividends declared in 2014.

NYSE 1/23/15, 1:12 PM

NEW YORK STOCK EXCHANGE

MCGRAW HILL FINANCIAL INC (NYSE:MHFI)

QUOTE (/QUOTE/XNYS:MHFI) COMPANY INFORMATION (/XNYS:MHFI/COMPANY)

HISTORICAL PRICE

DATE	OPEN	LOW	HIGH	CLOSE	VOLUME	ADJ CLOSE
Dec 31, 2014	61.24	61.24	61.98	61.93	589201	61.93

Dividend History for January, 1 2014 - December 31, 2014

Payable	Amount	Ex-Date	Record	Declaration	Dividend Type
12/10/2014	$00.760	11/21/2014	11/25/2014	10/23/2014	Cash

https://www.nyse.com/quote/XNYS:MHFI

JonesMillerDavis, LLP

Prepared by:

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	12/31/2014	MARKETABLE SECURITIES-STOCKS	I-04c

Source: These SinpIts were obtained directly from NYSE.com.
Purpose: To verify trading price on 12/31/14 and dividends declared in 2014.

NYSE 1/23/15, 12:39 PM

NEW YORK ARCA BONDS

UPS CORP 09.000% SR DEB 10/15/19
(NYSE ARCA:UPS19)

Bond Center > Bond Screener > Bond Screener Results > Bond Profile

QUOTE (/QUOTE/ARCX:UPS19)

UPS Corp 09.000% Sr Deb 10/15/19	As of 31-DEC-2014
Price:	102.520
Coupon (%):	10.000
Maturity Date:	15-OCT-2019
Fitch Ratings:	AA
Coupon Payment:	Semi-Annual
Coupon Date:	15-ARP-1999
Type:	Corporate
Callable:	No

https://www.nyse.com/quote/UPS19BDS

JonesMillerDavis, LLP

Prepared by:

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	12/31/2014	MARKETABLE SECURITIES-STOCKS	I-04d

Source: These Sinplts were obtained directly from NYSE.com.
Purpose: To verify trading price on 12/31/14 and dividends declared in 2014.

NYSE 1/23/15, 12:04 PM

NEW YORK ARCA BONDS

ALLSTATE CORP 10.000% SR DEB 06/30/18 (NYSE ARCA:ALL18)

Bond Center > Bond Screener > Bond Screener Results > Bond Profile

QUOTE (/QUOTE/ARCX:ALL18)

Allstate Corp 10.000% Sr Deb 05/15/18	As of 31-DEC-2014
Price:	100.560
Coupon (%):	10.000
Maturity Date:	30-JUN-2018
Fitch Ratings:	AA
Coupon Payment:	Semi-Annual
Coupon Date:	30-DEC-1998
Type:	Corporate
Callable:	No

https://www.nyse.com/quote/ALL18BDS

JonesMillerDavis, LLP

Prepared by:

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	12/31/2014	MARKETABLE SECURITIES-STOCKS	I-04e

Source: This SinpIts was obtained directly from NYSE.com.
Purpose: To test completeness, verifying no dividends declared in 2014 by Home Depot (HD).

NYSE 1/23/15, 2:21 PM

NEW YORK STOCK EXCHANGE

HOME DEPOT (HD)

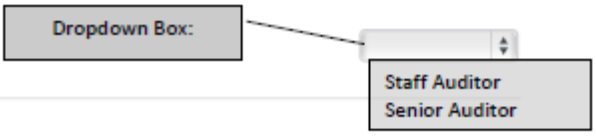
Dividend History for January, 1 2014 - December 31, 2014

Payable	Amount	Ex-Date	Record	Declaration	Dividend Type
-	-	-	-	-	-

https://www.nyse.com/quote/XNYS:HD

JonesMillerDavis, LLP

Prepared by:



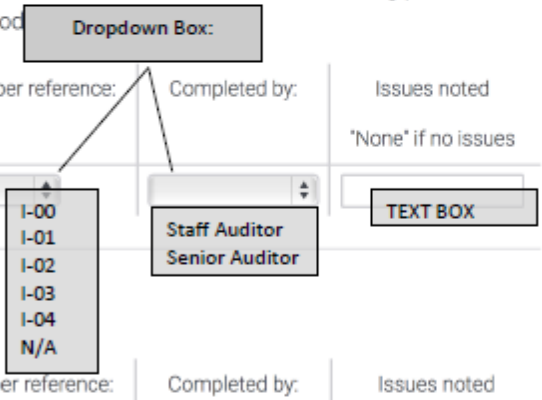
CLIENT:	FYE:	WP TITLE:	WP:
Halcyon Boards, Inc.	**12-31-2014**	**MARKETABLE SECURITIES**	**I-01**

Purpose:

To obtain sufficient and appropriate audit evidence regarding the existence, completeness, rights and obligations, valuation, and presentation and disclosure of marketable securities as described in the audit program **steps 1.00 to 4.00** at **I-APG**.

Procedures performed:

1.00 Obtained a schedule of all marketable securities of investments, including purchase and disposition information for the period



1.01 Tested the clerical accuracy.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.06 Determined current market value through reference to a financial reporting service or a similar source.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.07 Verified sales price by examining invoices or broker's statement.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.08 Determined whether unrealized gains and losses are properly accounted for.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.09 Recomputed interest and determine that accrued interest is properly recorded at year-end.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.10 Verified dividend income with a third-party dividend reporting service.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.02 Reconciled amounts to the general ledger.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.03 Determined that the following accounts are identified for specific classification: Equity Securities and Debt Securities.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.04 Verified the existence of securities by either: (a) inspect securities if maintained by client or (b) confirming the existence with trustees holding them.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

1.05 Agreed the cost of recorded investments to brokers' reports, canceled checks, or other supporting documentation.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

2.00 Examined brokers' statement(s) for the period end and cross-reference to client provided schedule.

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

3.00 Examined selected documents to determine if any securities have been pledged as collateral by:
(a) asking management; and
(b) reviewing board of directors' minutes, loan agreements, and other documents.

Workpaper reference:	Completed by:	Issues noted
GA-03	Senior Auditor	None

4.00 Review and inquire of management's intent to hold securities and review for proper classification of investments (e.g., Trading, Available for Sale, and Held to Maturity).

	Workpaper reference:	Completed by:	Issues noted "None" if no issues
Please choose one for each:			

5.00 Review footnotes to insure required disclosure
(a) have been made and are understandable and
(b) are accurate and properly presented at the appropriate amounts

To be completed at a later date by Sam Rodgers, Senior Auditor,
see I-APG for workpaper reference and conclusion related to step 5.00.

This section is preset to match information on the prior screen, which indicates that the audit senior already completed this step.

Conclusion:

There **is** sufficient appropriate evidence to provide reasonable assurance that Halcyon Boards' marketable securities are free of material misstatement for the year ending 12/31/2014.

There **is NOT** sufficient appropriate evidence to provide reasonable assurance that Halcyon Board's marketable securities are free of material misstatement for the year ending 12/31/2014.

NEXT

How confident are you in your conclusion regarding Halcyon Boards?

Not at all Confident 1	2	3	4	5	6	Very Confident 7

NEXT

These two possible responses are presented in random order.

{End of Task 1 - PREPARE condition. Next participants in the PREPARE condition will proceed to the feedback section}

REVIEW CONDITION

The audit senior (Sam Rodgers) just sent you an email.

Hello,

Welcome to the firm! I'm sorry I am not out there with you. I'm working on another project and I'll be there tomorrow. In the meantime, please concentrate on testwork over marketable securities. You will be working on 2 different clients: Halcyon Boards and Kinetic Canoes.

I've worked on both of these clients for the past 3 years and they are similar in that they manufacture outdoor sports equipment. However, they are separate entities and NOT related in any way. So please do your best to keep them separate.

I'd like to you to start by **reviewing** the marketable securities testwork for Halcyon Boards. After you finish, I'll provide you some feedback. Then, I'd like you to review the marketable securities testwork for Kinetic Canoes. For both these clients, all footing and cross-footing has been completed and reviewed by our offshore team. Please assume **all footing and cross-footing is correct**. Please do not spend your valuable time recalculating footing or cross-footing, as this has already been completed by our offshore team.

Please limit your time to 25 minutes on each client. This might seem daunting, but I heard you are sharp and a hard worker. I have complete confidence in you.

Also, Lynn Ramirez, a manager, will be working in the conference room as well. However, she oversees other areas and will not be reviewing your work.

Only included in the "Other Auditor Present" condition.

Regards,
SR
Sam Rodgers
Audit Senior
JonesMillerDavis, LLP

Audit Task: You have been assigned to Investments testwork. Specifically, you have been asked to review testwork over marketable securities.

Investments Testwork for Halcyon Boards, Inc.
This first audit task is concerned with the role of the audit process in detecting material misstatements. Specifically, this task relates to the audit of investment in marketable securities for Halcyon Boards, Inc. You have been assigned to REVIEW WORKPAPERS prepared by a first-year staff auditor and complete the following:

Review the working papers, which include the audit program for marketable securities, unaudited balance sheet and income statement, and a staff auditor's workpapers, which include a lead sheet, audit memo, schedule, and supporting documentation.

Prepare any necessary review notes or comments using the form on the next screen.

Make a final judgment about (a) the likelihood of material misstatements in the financial statements and (b) the likelihood that the staff auditor detected such misstatements, if they exist.

As a staff auditor, you are aware that the audit senior may review your work.

Overview of Audit Client:

Halcyon Boards, Inc. (HBI) has been an audit client of the firm for several years. HBI manufactures paddle boards for a variety water conditions and experience levels. Its customer base includes both domestic and international customers. HBI has a 12/31 fiscal year-end.

HBI's business operations are seasonal, which produces large amounts in idle funds to be invested temporarily in the fall and winter. HBI's treasurer usually invests in marketable securities in mid-August and holds them until mid-January. They are sold in late January and February to finance spring inventories. As management's focus is on short-term investments with minimal risk, the portfolio is limited to debt securities rated AA and above, and common stocks of "blue-chip" companies.

This is your first week as a staff level auditor on the HBI audit engagement.

On the next screen you will find a comment sheet, document any review comments may have here. If you have no comments or less than the space provided, please select "none" from the drop down list and type NA in the comments block.
Please use the hyperlinks below to access the following:

GA-01 Unaudited Financial Statements
I-APG Audit Program
I-00 Lead Sheet
I-01 Marketable Securities Audit Memo
I-02 Schedule of Marketable Securities
I-03 Brokerage Statement
I-04 Supporting Documentation from NYSE.com

Email from Audit Senior, Sam Rodgers
Client Background
List of Standard Tickmarks

All necessary documents have been provided electronically. Please base your responses on ONLY YOUR understanding of the materials provided and do not use any outside resources, other than a calculator.

Note:
Audit procedure #1.00 has been completed is signed off by the audit senior, Sam Rodgers.
Audit procedure #1.01 has been completed is signed off by the offshore team. You do not need to check footing or cross-footing. Please do not spend your valuable time recalculating footing or cross-footing, as this has already been completed by our offshore team.
Audit procedure #3.00 has been completed is signed off by the audit senior, Sam Rodgers. You do not need to any work over this step.
Audit procedure #5.00 cannot be completed at this time, please skip it.

JonesMillerDavis, LLP

STANDARD TICKMARKS

^	Footed.
<	Cross-footed.
✓	Agreed to supporting documentation, without exception.
Rx	Recalculated, no exceptions.
GL	Agreed to the current year general ledger, without exception.
PY	Agreed to the prior year, without exception.
NA	Not applicable.
∑	Sum of.
FYE	Fiscal year-end.
PBC	Prepared by Client.
APG	Audit Program.
p/f/w	Pass on further work.
w/o/e	Without exception (no exception noted).
w/o/m/e	Without material exception (immaterial exception noted).
imm	Immaterial (difference is below audit misstatement posting threshold).
♌	Re-preformed as part of the review process.

NOTE:

All other tickmarks should be represented by a number inside a circle, i.e., ①.

Halcyon Boards, Inc.
Balance Sheet
As of December 31, 2014
(In thousands)

Account #	Account Title	2014 Unaudited		2013 Audited	
ASSETS					
10100	Cash and Cash Equivalents	12,625		11,665	
10500	Investments in marketable securities	2,546	I-00	2,540	I-00
11000	Accounts Receivable (net)	9,572		9,505	
11500	Other Receivable (net)	63		56	
12000	Inventory (net)	14,718		14,504	
	Total Current Assets	39,524		38,270	
15000	Property, Plant & Equipment (net)	2,897		2,789	
Total Assets		42,421		41,059	
LIABILITIES AND STOCKHOLDER'S EQUITY					
20000	Accounts Payable	3,007		2,663	
21000	Other Current Payables	65		52	
	Total Current Liabilities	3,072		2,715	
26000	Notes Payable - Noncurrent	10,300		10,300	
Total Liabilities		13,372		13,015	
30000	Stockholders' Equity	29,049		28,044	
Total Liabilities and Stockholders' Equity		42,421		41,059	

Halcyon Boards, Inc.
Income Statement
For the year ended December 31, 2014
(In thousands)

Account #	Account Title	2014 Unaudited		2013 Audited	
REVENUE					
40000	Sales - Net	205,324		204,673	
	Net Sales	205,324		204,673	
EXPENSES					
50000	Cost of Goods Sold	154,405		153,569	
	Gross Margin	50,919		51,104	
OPERATING EXPENSES					
60000	Salaries and Wages Expense	28,018		27,763	
61000	Other Operating Expenses	17,187		16,731	
	Total Operating Expenses	45,205		44,494	
	Net Income from Operations	5,714		6,610	
OTHER INCOME/(EXPENSE)					
47000	Interest and dividends earned	55	I-00	61	I-00
68000	Interest expense	(1,945)		(1,876)	
70000	Gain/(Loss) on disposal of investments	33	I-00	13	I-00
80000	Loss on decline in market value of securities	-	I-00	(10)	I-00
	Net Income before Tax	3,857	I-APG	4,798	
78000	Income Tax Expense	(1,157)		(1,439)	
Net Income		2,700		3,359	

JonesMillerDavis, LLP

CLIENT:	FYE:	WP TITLE:	Workpaper Reference:
Halcyon Boards, Inc.	12-31-2014	Marketable Securities Audit Program	I-APG

Audit Objectives:		Assertion(s)
1	The balances reflect a complete listing of investments, and the company's ownership of such assets is evidenced by securities or other appropriate legal documents either physically on hand or held in safekeeping by others.	E, C , R/O
2	Asset values, investment income or loss, valuation allowances, gains or losses on sales of investments, and changes in fair value are recorded and presented in accordance with GAAP.	A, V
3	Investments are properly described and classified in the balance sheet, and disclosures have been made for any restrictions, pledges, or liens against the assets. The disclosures required by GAAP have been made.	P/D, A, C, V

Steps	Audit Procedure	Assertion(s)	Sign-off	W/P Ref
1.00	Obtain a schedule of all marketable securities of investments, including purchase and disposition information for the period.	C	SR	I-02
1.01	Test the clerical accuracy.	A, C, V	OT#3498	I-02
1.02	Reconcile amounts to the general ledger.	E, V	SA	I-02
1.03	Determine that the following accounts are identified for specific classification: Equity Securities and Debt Securities.	P/D	SA	I-02
1.04	Verify the existence of securities by either: (a) inspect securities if maintained by client or (b) confirming the existence with trustees holding them.	E	SA	I-02
1.05	Agree the cost of recorded investments to brokers' reports, canceled checks, or other supporting documentation.	E, R/O	SA	I-03
1.06	Determine current market value through reference to a financial reporting service or a similar source.	V	SA	I-03
1.07	Verify sales price by examining invoices or broker's statement.	V	SA	I-03
1.08	Determine whether unrealized gains and losses are properly accounted for.	V	SA	I-02
1.09	Recalculate interest and determine that accrued interest is properly recorded at year-end.	A, V	SA	I-02
1.10	Verify dividend income with a third-party dividend reporting service.	C, V	SA	I-04
2.00	Examine brokers' statement(s) for the period end and cross-reference to client provided schedule.	A, C	SA	I-02
3.00	Examine selected documents to determine if any securities have been pledged as collateral by: (a) asking management; and (b) reviewing board of directors' minutes, loan agreements, and other documents.	R/O	SR	GA-03
4.00	Review and inquire of management's intent to hold securities and review for proper classification of investments (e.g., Trading, Available for Sale, and Held to Maturity).	A, P/D	SA	I-02
5.00	Review footnotes to insure required disclosures: (a) have been made and are understandable and (b) are accurate and properly presented at the appropriate amounts.	P/D, A, C, V	Please skip this step. I will complete later. SR	

FINANCIAL STATEMENT ASSERTIONS

A	Accuracy
C	Completeness and cutoff
E	Existence
P/D	Presentation and disclosure
R/O	Rights and obligations
V	Valuations and allocation

---Materiality---	
Measurement Base	
Pretax income	GA-01 p2 3,857,000
Percentage Applied	4.5%
Calculated Planning Materiality (4.5% of Pretax Income)	173,565
Overall (planning) Materiality (4.5% of Pretax Income, rounded)	173,000
Audit Misstatement Posting Threshold (5% of Overall Materiality)	**8,650**
NOTE: Any audit difference greater than the audit misstatement posting threshold would require an adjusting entry.	

JonesMillerDavis, LLP

Prepared by: SA

CLIENT:	FYE:	Workpaper Review:
Halcyon Boards, Inc.	**12/31/14**	**I-00**

Investments in Marketable Securities Lead Sheet

Account No.	Account Name	12/31/2014 Balance		12/31/2013 Balance	
10500	Investments in marketable securities	TB 2,546,000.00	I-02	PY 2,540,000.00	I-02
47000	Interest and dividends earned	54,517.50	I-02	60,800.00	
70000	Gain/(Loss) on disposal of investments	33,045.00	I-02	12,950.00	
80000	Loss on decline in market value of securities	-	I-02	(10,208.00)	
	Group Total	2,633,562.50 ^		2,603,542.00 ^	

Tickmark legend

^ Footed, without exception

PY Agreed to prior year at GA-01, w/o/e

TB Agreed to trial balance on GA-01, w/o/e

JonesMillerDavis, LLP

Prepared by: SA

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	**12-31-2014**	**MARKETABLE SECURITIES MEMO**	**I-01**

Purpose:

To obtain sufficient and appropriate audit evidence regarding the existence, completeness, rights and obligations, valuation, and presentation and disclosure of marketable securities as described in the audit program **steps 1.00 to 4.00** at **I-APG**.

Procedures performed:

1.0 Obtained a schedule of all marketable securities of investments, including purchase and disposition information for the period. Completed by Senior Auditor see wp **I-02**.

- 1.01 Tested the clerical accuracy. Completed by Offshore Team # 3498, at wp **I-02**, no issues noted.
- 1.02 Reconciled amounts to the general ledger. Completed by Staff Auditor (SA) at **I-02**, no issues noted.
- 1.03 Determined that the following accounts are identified for specific classification: Equity Securities and Debt Securities. Completed by Staff Auditor (SA) at wp **I-02**, no issues noted.
- 1.04 Verified the existence of securities by either: (a) inspecting securities if maintained by client or (b) confirming the existence with trustees holding them. Completed by Staff Auditor (SA) at wps **I-02 and I-03**, no issues noted.
- 1.05 Agreed the cost of recorded investments to brokers' reports, canceled checks, or other supporting documentation. Completed by Staff Auditor (SA) at wps **I-02 and I-03**, no issues noted.
- 1.06 Determined current market value through reference to a financial reporting service or a similar source. Completed by Staff Auditor (SA) at wps **I-02 and I-04 series**, no issues noted.
- 1.07 Verified sales price by examining invoices or broker's statement. Completed by Staff Auditor (SA) at wps **I-04 series**, no issues noted.
- 1.08 Determined whether unrealized gains and losses are properly accounted for. Completed by Staff Auditor (SA) at wp **I-02**, immaterial difference noted, pass on further work.
- 1.09 Recalculated interest and determined that accrued interest is properly recorded at year-end. Completed by Staff Auditor (SA) at wps **I-02**, no issues noted.
- 1.10 Verified dividend income with a third-party dividend reporting service. See wp **I-04 series**, no issues noted.

2.00 Examined brokers' statement(s) for the period end and cross-reference to client provided schedule. Completed by Staff Auditor (SA) at wps **I-02 and I-03 series**, no issues noted.

3.00 Examine selected documents to determine if any securities have been pledged as collateral by: (a) asking management; and (b) reviewing board of directors' minutes, loan agreements, and other documents. Completed by Senior Auditor (SR) at wp **GA-03**, none noted.

4.00 Review and inquire of management's intent to hold securities and review for proper classification of investments (e.g., Trading, Available for Sale, and Held to Maturity). Completed by Staff Auditor (SA) at wp **I-02**, no issues noted.

5.00 Review footnotes to insure required disclosures:
(a) have been made and are understandable and
(b) are accurate and properly presented at the appropriate amounts.

Step 5.00 o be completed at a later date by Sam Rodgers, Senior Auditor, see I-APG for workpaper reference and conclusion related to step 5.00.

Conclusion, based **only on** audit program **steps 1.00 to 4.00** at **I-APG**:
There is sufficient appropriate evidence to provide reasonable assurance that marketable securities are free of material misstatement for the year ending 12/31/2014.

JonesMillerDavis, LLP

Prepared by: SA

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards, Inc.	12/31/2014	SCHEDULE OF INVESTMENTS IN MARKETABLE SECURITIES - PBC	I-02

Summary of Marketable Securities
Year Ended December 31, 2014

PBC

			Purchases			Disposals						Income	
	A	B	C		D	E		F	G = F - B	H =B+D-F+G	I	J=(units*rate)/12 *months owned	K=(shares* dividend)	L = J + K
Security	Shares or Par Value	Beginning Balance	Date	Shares or Par Value	Amount	Date	Shares or Par Value	Amount	Gain/(Loss) Disposal	Ending Balance	Market Value (12/31)	Interest	Dividends	Total
Equity Securities:														
Time Warner Cable (TWC) ①	3,500	650,000.00 ②	10/01/13	-	-	03/03/14	3,500	642,985.00 ②	(7,015.00)	- <	- ②	-	1,347.50 ③ R_x	1,347.50 <
Home Depot (HD)	9,000	840,000.00 ②	10/31/13	-	-	03/14/14	9,000 ②	890,010.00	50,010.00	-	-	-	- ④	-
Exxon Mobil Corp. (XOM)	-	-	08/29/14	5,000 ②	481,000.00	-	-	-	-	481,000.00	487,900.00	-	9,050.00 ③ R_x	9,050.00
McGraw-Hill Financial (MHFI)	-	-	08/29/14	12,000 ②	750,000.00	-	-	-	-	750,000.00	743,160.00	-	9,120.00 ③ R_x	9,120.00
Debt Securities:														
AT&T 8% Debenture bonds ①	1,100,000.00	1,050,000.00 ②	08/30/13	-	-	02/15/14	1,100,000.00 ②	1,040,050.00	(9,950.00)	-	-	11,000.00 ③ R_x	-	11,000.00
UPS (UPS) 9% Debenture bonds	-	-	10/31/14	400,000.00 ②	415,000.00	-	-	-	-	415,000.00	410,080.00	9,000.00	-	9,000.00
Allstate (ALL) 10% Debenture bonds	-	-	10/31/14	900,000.00 ②	900,000.00	-	-	-	-	900,000.00	905,040.00	15,000.00	-	15,000.00
		2,540,000.00 ① PY			2,546,000.00 ①			2,573,045.00	33,045.00 ①	2,546,000.00 R_x	2,546,180.00	35,000.00	19,517.50	54,517.50

Market Value 2,546,180.00 TB
Book Value 2,546,000.00 Σ H
Difference 180.00 Imm, p/f/w

Tickmark legend

- A Footed, without exception
- < Cross-footed, without exception
- R_x Recalculated, without exception
- Σ Sum of
- TB Agreed to the current year trial balance at GA-01, without exception
- PY Agreed to the prior year (12/31/13) trial balance, without exception
- Imm Immaterial (difference is below audit misstatement posting threshold)
- p/f/w Pass on further work
- ① Securities held in broker's account, confirmed on Brokerage Account Statement at I-03, without exception
- ② Agreed to Brokerage Account Statements at I-03, without exception
- ③ Interest and dividend payments verified through examination of Brokerage Account Statements at I-03 p3, without exception
- ④ Verified no dividend was declared in 2014 with NYSE.com, see I-04e, without exception

SOURCE: Obtained directly from Financial Investments.

WP: I-03
Prepared by: SA

Financial
INVESTMENTS

Envelope 021021227

#BWNFRKS

Halcyon Boards, Inc.
Treasurer
123 West St.
SOMETOWN, US 01234I

Brokerage Account Statement
January 1, 2014 - December 31, 2014

Online	FinInv.com
FAST(sm)-Automated Telephone	855-555-5555
Customer Service	855-555-5550

Your Advisor
INVESTMENT MANAGEMENT
267 UPTHE ROAD
SOMETOWN, US 012345
PHONE: (555)555-0555

Your Portfolio Summary

Home Depot (HD)

Beginning value as of Jan 1	I-02 $2,540,000.00
Ending value as of Dec 31	I-02 **$2,546,000.00**
Change in investment value	$6,000.00

Value by Account

General Investment	Account Number	Net Value January 1, 2014	Net Value December 31, 2014
Financial Account	111-11-1111	$2,540,000.00	$2,546,000.00
Total Portfolio Value		I-02 $2,540,000.00 ^	I-02 $2,546,000.00 ^

TICKMARKS

^ Footed.
< Cross-footed.
R_x Recomputed, no exceptions.

Income Summary

	Year to Date
Taxable	$52,547.50
Tax-exempt	-
Total	I-02 $54,517.50 ^ p2

SOURCE: Obtained directly from Financial Investments.

WP: I-03

Financial
INVESTMENTS

Brokerage Account Statement
January 1, 2014 - December 31, 2014

Your Portfolio Detail

Financial Account 111-11-1111 Halcyon Boards, Inc.

Account Summary		**Income Summary**	
			Year to Date
Beginning value as of Jan 1	$ 2,540,000.00		
Withdrawals	- 2,573,045.00	Tax-Exempt	-
Deposits	2,546,000.00	Dividends	19,517.50
Change in investment value	33,045.00	Interest	35,000.00
Ending value as of Dec 31	**$ 2,546,000.00**	**Total**	**54,517.50**

Holdings (Symbol) as of December 31,2014	Quantity 12/31/2014	Price per Unit 12/31/2014	Total Cost Basis	Total Value 12/31/2014
	A	B	C	D=AxB
Stocks 47.3% of holdings				
Exxon Mobil Corp. (XOM)	5,000.00	$ 97.580	$ 481,000.00	$ 487,900.00
McGraw-Hill Financial (MHFI)	12,000.00	$ 61.930	$ 750,000.00	$ 743,160.00
Bonds 51.7% of holdings				
UPS (UPS19) 9% Debenture bonds 09.000% 10/15/2019 Aa FXIC INSURED	4,000.00	$ 102.520	$ 415,000.00	$ 410,080.00
Allstate (ALL18) 10% Debenture bonds 10.000% 05/15/2018 Aa FXIC INSURED	9,000.00	$ 100.560	$ 900,000.00	$ 905,040.00

SOURCE: Obtained directly from Financial Investments.

WP: I-03

Financial INVESTMENTS

Brokerage Account Statement
January 1, 2014 - December 31, 2014

Your Portfolio Detail

Financial Account 111-11-1111 Halcyon Boards, Inc.

Transaction Details (for holdings with activity this period)

Brokerage Activity

Settlement Date	Security	Description	A Quantity	B Price per Unit	C Cost	D = A x B Transaction Amount	E = D - C Transaction Profit/(Loss)
2/15	AT&T (ATT21) 8% Debenture bonds	You sold	-11,000 *	$ 94.550	$ 1,050,000.00	$ 1,040,050.00	$ -9,950.00
2/15	AT&T (ATT21) 8% Debenture bonds	Interest received				11,000.00	
2/15	Time Warner Cable (TWC) - dividend of $00.3850 per share	Dividend received				1,347.50	
3/3	Time Warner Cable (TWC)	You sold	-3,500	183.710	650,000.00	642,985.00	-7,015.00
3/14	Home Depot (HD)	You sold	-9,000	98.890	840,000.00	890,010.00	50,010.00
8/29	Exxon Mobil Corp. (XOM)	You bought	5,000	96.200		481,000.00	
8/29	McGraw-Hill Financial (MHFI)	You bought	12,000	62.500		750,000.00	
10/31	Allstate (ALL18) 10% Debenture bonds	You bought	9,000 *	100.000		900,000.00	
10/31	UPS (UPS19) 9% Debenture bonds	You bought	4,000 *	103.750		415,000.00	
12/30	Allstate (ALL18) 10% Debenture bonds	Interest received				15,000.00	
12/31	UPS (UPS19) 9% Debenture bonds	Interest received				9,000.00	
12/31	Exxon Mobil Corp. (XOM) - dividend of $01.8100 per share	Dividend received				9,050.00	
12/31	McGraw-Hill Financial (MHFI) - dividend of $00.7600 per share	Dividend received				9,120.00	

* par value for debenture bonds is $100.000 per unit.

JonesMillerDavis, LLP

Prepared by: SA

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	**12/31/2014**	**MARKETABLE SECURITIES-STOCKS**	**I-04a**

Source: These Sinplts were obtained directly from NYSE.com.
Purpose: To verify trading price on 12/31/14 and dividends declared in 2014.

NYSE 1/23/15, 1:04 PM

NEW YORK STOCK EXCHANGE

EXXON MOBIL CORP. (XOM)

QUOTE (/QUOTE/XNYS:OXM) COMPANY INFORMATION (/XNYS:OXM/COMPANY)

HISTORICAL PRICE

DATE	OPEN	LOW	HIGH	CLOSE	VOLUME	ADJ CLOSE
Dec 31, 2014	97.14	96.83	97.61	97.58	998773	I-03 p2 97.58

Dividend History for January, 1 2014 - December 31, 2014

Payable	Amount	Ex-Date	Record	Declaration	Dividend Type
12/18/2014	$01.810	12/2/2014	12/4/2014	11/20/2014	Cash

I-03 p3

https://www.nyse.com/quote/XNYS:OXM

JonesMillerDavis, LLP

Prepared by: SA

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	**12/31/2014**	**MARKETABLE SECURITIES-STOCKS**	**I-04b**

Source: These Sinplts were obtained directly from NYSE.com.
Purpose: To verify trading price on 12/31/14 and dividends declared in 2014.

NYSE 1/23/15, 1:12 PM

NEW YORK STOCK EXCHANGE

MCGRAW HILL FINANCIAL INC (NYSE:MHFI)

QUOTE (/QUOTE/XNYS:MHFI) COMPANY INFORMATION (/XNYS:MHFI/COMPANY)

HISTORICAL PRICE

DATE	OPEN	LOW	HIGH	CLOSE	VOLUME	ADJ CLOSE
Dec 31, 2014	61.24	61.24	61.98	61.93	589201	I-03 p2 61.93

Dividend History for January, 1 2014 - December 31, 2014

Payable	Amount	Ex-Date	Record	Declaration	Dividend Type
12/10/2014	$00.760	11/21/2014	11/25/2014	10/23/2014	Cash

I-03 p3

https://www.nyse.com/quote/XNYS:MHFI

JonesMillerDavis, LLP

Prepared by: SA

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	**12/31/2014**	**MARKETABLE SECURITIES-STOCKS**	**I-04c**

Source: These Sinplts were obtained directly from NYSE.com.
Purpose: To verify trading price on 12/31/14 and dividends declared in 2014.

NYSE 1/23/15, 12:39 PM

NEW YORK ARCA BONDS

UPS CORP 09.000% SR DEB 10/15/19
(NYSE ARCA:UPS19)

Bond Center > Bond Screener > Bond Screener Results > Bond Profile

QUOTE (/QUOTE/ARCX:UPS19)

UPS Corp 09.000% Sr Deb 10/15/19		As of 31-DEC-2014
Price: I-03 p2	102.520	
Coupon (%):	10.000	
Maturity Date:	15-OCT-2019	
Fitch Ratings:	AA	
Coupon Payment:	Semi-Annual	
Coupon Date:	15-ARP-1999	
Type:	Corporate	
Callable:	No	

https://www.nyse.com/quote/UPS19BDS

JonesMillerDavis, LLP

Prepared by: SA

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	**12/31/2014**	**MARKETABLE SECURITIES-STOCKS**	**I-04d**

Source: These Sinplts were obtained directly from NYSE.com.
Purpose: To verify trading price on 12/31/14 and dividends declared in 2014.

NYSE 1/23/15, 12:04 PM

NEW YORK ARCA BONDS

ALLSTATE CORP 10.000% SR DEB 06/30/18 (NYSE ARCA:ALL18)

Bond Center > Bond Screener > Bond Screener Results > Bond Profile

QUOTE (/QUOTE/ARCX:ALL18)

Allstate Corp 10.000% Sr Deb 05/15/18	As of 31-DEC-2014
Price: I-03 p2	100.560
Coupon (%):	10.000
Maturity Date:	30-JUN-2018
Fitch Ratings:	AA
Coupon Payment:	Semi-Annual
Coupon Date:	30-DEC-1998
Type:	Corporate
Callable:	No

https://www.nyse.com/quote/ALL18BDS

JonesMillerDavis, LLP

Prepared by: SA

Client:	FYE:	Workpaper Title:	Workpaper Reference:
Halcyon Boards	**12/31/2014**	**MARKETABLE SECURITIES-STOCKS**	**I-04e**

Source: This SinpIts was obtained directly from NYSE.com.
Purpose: To test completeness, verifying no dividends declared in 2014 by Home Depot (HD).

NYSE 1/23/15, 2:21 PM

NEW YORK STOCK EXCHANGE

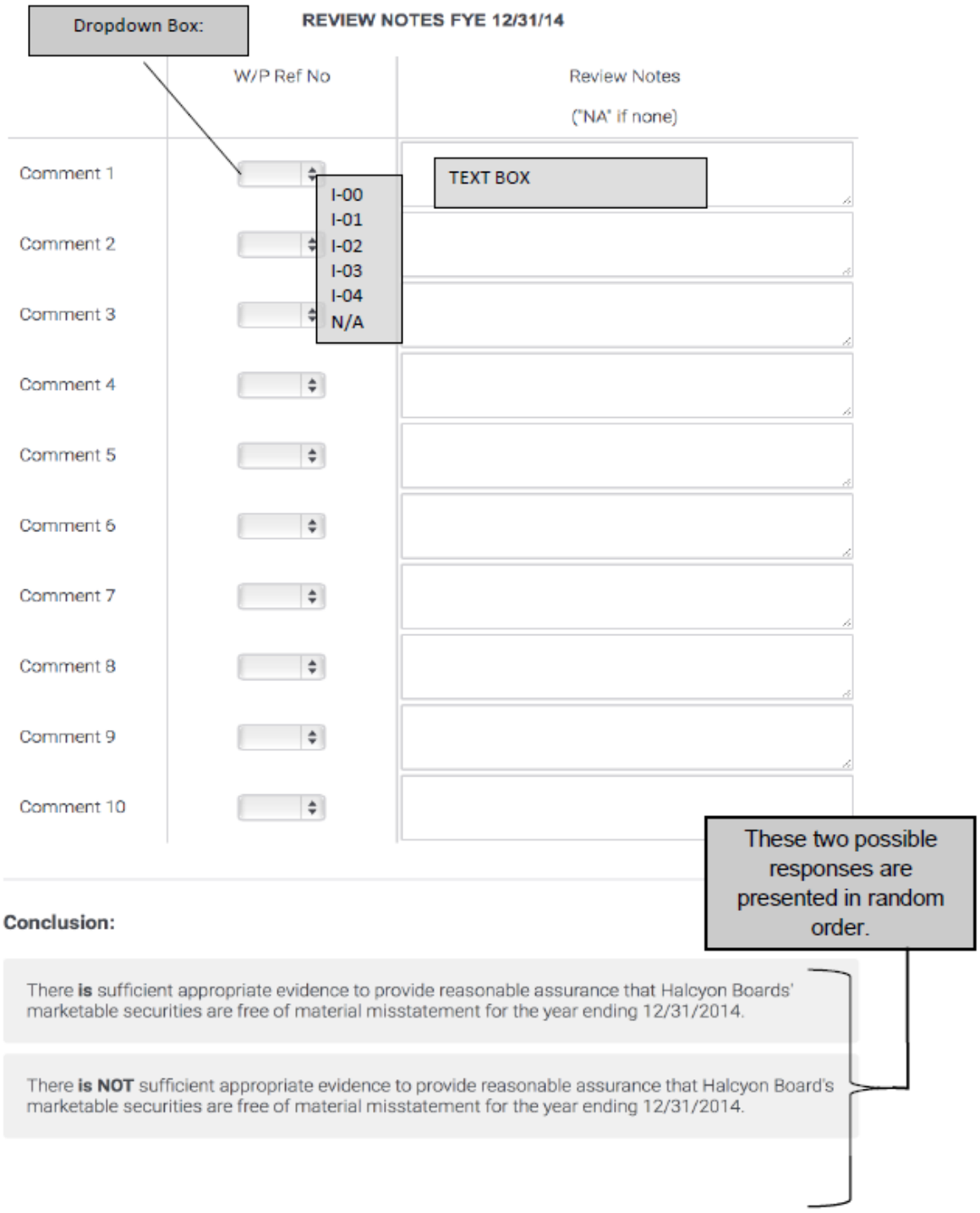
HOME DEPOT (HD)

Dividend History for January, 1 2014 - December 31, 2014

Payable	Amount	Ex-Date	Record	Declaration	Dividend Type
-	I-02 -	-	-	-	-

https://www.nyse.com/quote/XNYS:HD

Halcyon Boards, Inc.
Marketable Securities
REVIEW NOTES FYE 12/31/14



Conclusion:

There **is** sufficient appropriate evidence to provide reasonable assurance that Halcyon Boards' marketable securities are free of material misstatement for the year ending 12/31/2014.

There **is NOT** sufficient appropriate evidence to provide reasonable assurance that Halcyon Board's marketable securities are free of material misstatement for the year ending 12/31/2014.

How confident are you in your conclusion regarding Halcyon Boards?

Not at all Confident 1	2	3	4	5	6	Very Confident 7

NEXT

Please return all materials to the envelope marked Task 1 and close all PFD files, before clicking the NEXT button.

NEXT

APPENDIX C

IRB CERTIFICATION

Office for Research

Institutional Review Board for the
Protection of Human Subjects

THE UNIVERSITY OF
ALABAMA
RESEARCH

November 2, 2015

Heather Carrasco
Dept. of Accounting
CCBA
Box 870220

Re: IRB#: 15-OR-339 "New Auditors and New Technology"

Dear Ms. Carrasco:

The University of Alabama Institutional Review Board has granted approval for your proposed research.

Your application has been given expedited approval according to 45 CFR part 46. You have also been granted the requested waiver of written documentation of informed consent and the waiver for concealment. Approval has been given under expedited review category 7 as outlined below:

(7) Research on individual or group characteristics or behavior (including, but not limited to, research on perception, cognition, motivation, identity, language, communication, cultural beliefs or practices, and social behavior) or research employing survey, interview, oral history, focus group, program evaluation, human factors evaluation, or quality assurance methodologies

Your application will expire on October 31, 2016. If your research will continue beyond this date, complete the relevant portions of the IRB Renewal Application. If you wish to modify the application, complete the Modification of an Approved Protocol Form. Changes in this study cannot be initiated without IRB approval, except when necessary to eliminate apparent immediate hazards to participants. When the study closes, complete the appropriate portions of the IRB Request for Study Closure Form.

Please use reproductions of the IRB approved stamped consent form to provide to your participants.

Should you need to submit any further correspondence regarding this proposal, please include the above application number.

Good luck with your research.

Sincerely,

Carpantato T. Myles, MSM, CIM, CIP
Director & Research Compliance Officer

358 Rose Administration Building
Box 870127
Tuscaloosa, Alabama 35487-0127
(205) 348-8461
FAX (205) 348-7189
TOLL FREE (877) 820-3066

IRB Project #: 15-OR-339

UNIVERSITY OF ALABAMA
INSTITUTIONAL REVIEW BOARD FOR THE PROTECTION OF HUMAN SUBJECTS
REQUEST FOR APPROVAL OF RESEARCH INVOLVING HUMAN SUBJECTS

I. Identifying information

	Principal Investigator	Second Investigator	Third Investigator
Names:	Heather Carrasco	Rick Hatfield	
Department:	Culverhouse College of Accountancy	Culverhouse College of Accountancy	
College:	Culverhouse College of Commerce & Business Administration	Culverhouse College of Commerce & Business Administration	
University:	University of Alabama	University of Alabama	
Address:	Box 870220	Box 870220	
Telephone:	205-348-8392	205-348-8392	
FAX:	205-348-8453	205-348-8453	
E-mail:	hlcarrasco@cba.ua.edu	rhatfiel@cba.ua.edu	

Title of Research Project: New Auditors and New Technology

Date Submitted: 9/9/15
Funding Source: Culverhouse College of Commerce & Business Administration and Culverhouse School of Accountancy

Type of Proposal ☒ New ☐ Revision ☐ Renewal (Please attach a renewal application) ☐ Completed ☐ Exempt
Please attach a continuing review of studies form
Please enter the original IRB # at the top of the page

UA faculty or staff member signature: _____

II. NOTIFICATION OF IRB ACTION (to be completed by IRB):
Type of Review: ____ Full board __X__ Expedited

IRB Action:
___ Rejected Date: _____
___ Tabled Pending Revisions Date: _____
___ Approved Pending Revisions Date: _____
__X__ Approved-this proposal complies with University and federal regulations for the protection of human subjects.
Approval is effective until the following date: 10/31/2016
Items approved: __X__ Research protocol (dated _____)
__X__ Informed consent (dated _____)
___ Recruitment materials (dated _____)
__X__ Other Waiver Written doc (dated _____)

Approval signature ___

Research Invitation

Heather Carrasco, Principal Investigator from the University of Alabama, is conducting a research study called New Technologies and New Auditors. She wishes to find out how new auditors respond to changes in auditing related to advances in technology.

Taking part in this research study involves completing a web survey that will take about 60 minutes. This survey contains questions about substantive testwork in a hypothetical annual audit.

We will protect your confidentiality by holding your responses in strict confidence, and no attempt will be made to attribute responses to you. Only the research team members will have access to the data. The data will be password protected. Only summarized data will be presented at meetings or in publications.

By agreeing to participate in the study, you will gain experience on substantive testwork that is very similar to a task that is performed by professional auditors. In addition, part of your grade in AC532 may be derived from completion of the research study and questionnaire. Instead of the research study, you may choose to complete an alternative assignment of similar time/effort to obtain the same amount of course credit. Whether you complete the research study or the alternative assignment, you will receive a maximum of 40 points towards your final grade in AC532 (this represents approximately 8% of your total grade). The findings from this research study will be useful to academics, professionals and regulators for providing a balanced understanding on this important topic. The chief risk is that some of the questions may make you uncomfortable.

If you have questions about this study, please contact either: Heather Carrasco at 205-348-8392 or hlcarrasco@cba.ua.edu or Rick Hatfield at 205-348-8392 or rhatfiel@cba.ua.edu.

If you have questions about your rights as a research participant contact Ms. Tanta Myles (the University Compliance Officer) at (205) 348-8461 or toll-free at 1-877-820-3066. If you have complaints or concerns about this study, file them through the UA IRB outreach website at http://osp.ua.edu/site/PRCO_Welcome.html. Also, if you participate, you are encouraged to complete the short Survey for Research Participants online at this website. This helps UA improve its protection of human research participants.

YOUR PARTICIPATION IS COMPLETELY VOLUNTARY. You are free to not participate or stop participating any time before you submit your answers.

Purpose

This research study will simulate typical audit tasks. You will be provided with audit scenarios and asked to make decisions and conclusions regarding audit testwork.

UNIVERSITY OF ALABAMA IRB
CONSENT FORM APPROVED: 11/1/15
EXPIRATION DATE: 10/30/2016

If you understand the statements above, are at least 19 years old, and freely consent to be in this study please study, select CONTINUE and then click on the NEXT button to begin.

- o CONTINUE
- o EXIT

NEXT

UNIVERSITY OF ALABAMA IRB
CONSENT FORM APPROVED: 11/1/15
EXPIRATION DATE: 10/30/2016