BEYOND “EVIDENCE-BASED STANDARD-SETTING”: AN EXAMINATION
OF ACADEMIC CITATIONS IN THE PCAOB AS 2501 DUE PROCESS

Michael J. Fischer

The BRC Academy Journal of Business 11, no. 1 (2021): 1–22.

<https://dx.doi.org/10.15239/j.brcacadjb.2020.11.01.ja01>

WEB APPENDIX

<https://dx.doi.org/10.15239/j.brcacadjb.2021.11.01.wa01>

Figure 1

AS 2501 Overview

“The new standard builds on the common approaches in the three existing standards and will strengthen PCAOB auditing standards in the following respects:

- Provide direction to prompt auditors to devote greater attention to addressing potential management bias in accounting estimates, as part of applying professional skepticism.
- Extend certain key requirements in the fair value standard to other accounting estimates in significant accounts and disclosures to reflect a more uniform approach to substantive testing.
- Further integrate requirements with the risk analysis standards to focus auditors on estimates with greater risk of material misstatement. The new standard and related amendments incorporate specific requirements related to accounting estimates into AS 2110 and AS 2301 to inform the necessary procedures for auditing accounting estimates.
- Make other updates to the requirements for auditing accounting estimates.

- Provide specific requirements and direction to address auditing the fair value of financial instruments.

The Board seeks to improve the quality of auditing in this area and believes these changes strengthen and enhance the requirements for auditing accounting estimates.”

(PCAOB, 2018, p. 2)

Figure 2

PCAOB AS 2501, Due Process Overview

Due Process Step	Time Frame	Document Length
Staff Consultation Paper	August 2014	47 pages
Standing Advisory Group meeting	October 2014	340 pages
Comment letters	Oct to Nov. 2014	259 pages (38 letters)
Standing Advisory Group meeting	June 2015	85 pages
Proposed rule	June 2017	152 pages
Comment letters	June to Sept. 2017	263 pages (37 letters)
Standing Advisory Group meeting	November 2017	28 pages
Final Standard	December 2018	146 pages

Hereafter, the following abbreviations will be used for the corresponding due process steps:

2014 SCP—August 2014 Staff Consultation Paper

2014 SAG—October 2014 Standing Advisory Group meeting

2014 Ltr—October to November 2014 Comment letters

2015 SAG—June 2015 Standing Advisory Group meeting

2017 Prop—June 2017 Proposed rule

2017 Ltr—June to September 2017 Comment letters

2017 SAG—November 2017 Standing Advisory Group meeting

Table 1

Academic Citations, By Due Process Step

Academic Citations Measure		2014 SCP	2014 SAG	2014 Ltr	2015 SAG	2017 Prop	2017 Ltr	2017 SAG	2018 Std
Unique Citations		4	8	18	0	36	6	2	12
Unduplicated Citations		4	9	25	0	46	11	5	57
Total Citations		4	13	49	0	64	12	6	77

Table 2**Unique Citations, by Topical Category**

Publication Category	Count	Percentage
Auditing, Accounting Estimates ¹	23	26.7%
Auditing, Other	14	16.3%
Accounting Estimates ¹	7	8.2%
Accounting, Other	18	20.9%
Other	24	27.9%
Total	86	100.0%
1 Considered “Core” sources		

Table 3

Citations, by Due Process Step

Panel A, Total Citations

	2014 SCP			2014 SAG			2014 Ltr			2017 Prop			2017 Ltr			2017 SAG			2018 Std.	
Publication Type	#	%		#	%		#	%		#	%		#	%		#	%		#	%
Auditing																				
Estimates	4	100		11	84.6		35	71.4		23	35.9		4	33.3		3	50.0		27	35.1
Auditing, Other							4	8.2		5	7.8		2	16.7					10	13.0
Accounting																				
Estimates				1	7.7		7	14.3		1	1.6									
Accounting, Other							1	2.0		15	23.4		1	8.3		1	16.7		19	24.7
Other				1	7.7		2	4.1		20	31.3		5	41.7		2	33.3		21	27.3

Totals	4	100		13	100		49	100		64	100		12	100		6	100		77	100
--------	---	-----	--	----	-----	--	----	-----	--	----	-----	--	----	-----	--	---	-----	--	----	-----

Panel B. Unduplicated Citations

	2014 SCP			2014 SAG			2014 Ltr			2017 Prop			2017 Ltr			2017 SAG			2018 Std.	
Publication Type	#	%		#	%		#	%		#	%		#	%		#	%		#	%
Auditing																				
Estimates	4	100		7	77.8		11	44.0		10	21.7		4	36.4		3	60.0		12	21.1
Auditing, Other							4	16.0		5	10.9		2	18.1					10	17.5
Accounting																				
Estimates				1	11.1		7	28.0		1	2.2									
Accounting, Other							1	4.0		11	23.9		1	9.1		1	20.0		16	28.1
Other				1	11.1		2	8.0		19	41.3		4	36.4		1	20.0		19	33.3
Totals	4	100		9	100		25	100		46	100		11	100		5	100		57	100

Table 4

Unique Citations, First Appearance

	2014		2014		2014		2017		2017		2017		2018		Totals
	SCP		SAG		Ltr.		Prop.		Ltr.		SAG		Std.		
Publication Type	#		#		#		#		#		#		#		#
Auditing Estimates	4		6		5		3		1		1		3		23
Auditing, Other					4		5						5		14
Accounting Estimates			1		6										7
Accounting, Other					1		11		1		1		4		18
Other			1		2		17		4						24
Total Count	4		8		18		36		6		2		12		86
Percentage of total	4.7%		9.3%		20.9%		41.8%		7.0%		2.3%		14.0%		100%

Table 5

Age of Cited Works

Panel A, By Due Process Step—Unduplicated Citations

	2014 SCP		2014 SAG		2014 Ltr		2017 Prop		2017 Ltr.		2017 SAG		2018 Std.	
Citation Year	#	%	#	%	#	%	#	%	#	%	#	%		%
2018-2014			5	62.5	14	56.0	9	19.6	7	63.6	1	20.0	11	19.3
2013-2009	3	75.0	3	37.5	9	36.0	15	32.6	3	27.3	3	60.0	17	29.8
2008-2004	1	25.0			2	8.0	7	15.2	1	9.1			11	19.3
2003-1999							7	5.2					8	14.0
1998-1994							3	6.5			1	20.0	3	5.3
1993-1989													1	1.8
1988-1984														
Before 1984							5						6	7.1
Totals	4	100	8	100	25	100	46	100	11	100	5	100	57	100

Panel B, By Topical Category—Unique Citations

	Audit Est.			Audit, Other			Acct. Est.			Acct., Other			Other	
Citation Year	#	%		#	%		#	%		#	%		#	%
2018-2014	16	69.6		4	28.6		2	28.6		4	22.2		2	8.3
2013-2009	6	26.1		4	28.6		5	71.4		6	33.3		7	29.3
2008-2004	1	4.3		4	28.6					3	16.7		5	20.8
2003-1999				1	7.1					5	27.8		2	8.3
1998-1994													3	12.5
1993-1989				1	7.1									
1988-1984														
Before 1984													5	20.8
Totals	23	100		14	100		7	100		18	100		24	100

Figure 3

“Other” Citations, 1998 and Prior

Akerlof, George. A. 1970. The Market for “Lemons:” Quality Uncertainty and the Market Mechanism. *The Quarterly Journal of Economics*. 84 (3), 488-500.

Bator, F. 1958. The Anatomy of Market Failure. *The Quarterly Journal of Economics*. 72, 351.

Brennan, M. and A. Subrahmanyam. 1995. Investment Analysis and Price Formation in Securities Markets. *Journal of Financial Economics*. 38, 361.

Chari, V., R. Jagannathan, and A. Ofer. 1988. Seasonalities in Security Returns: The Case of Earnings Announcements. *Journal of Financial Economics*. 21, 101.

Holmstrom, B. 1979. Moral Hazard and Observability. *The Bell Journal of Economics*. 10. 74.

Jensen, M., & W. Meckling. 1976. Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure. 3, *Journal of Financial Economics*. 305.

Nickerson, R. 1998. Confirmation Bias: A Ubiquitous Phenomenon in Many Guises. *Review of General Psychology*. 2, 175.

Simon, H. 1955. A Behavioral Model of Rational Choice. *The Quarterly Journal of Economics*. 69, 99.

Figure 4

Reasons to Improve Auditing Standards

From an economic perspective, the primary reasons to improve PCAOB standards for auditing accounting estimates are as follows:

- The subjective assumptions and measurement uncertainty of accounting estimates make them susceptible to potential management bias. The Board believes that PCAOB standards related to auditing accounting estimates will be improved by emphasizing the application of professional skepticism, including addressing potential management bias. Although the risk assessment standards and certain other PCAOB standards address professional skepticism and management bias, the estimates standards provide little or no specific direction on how to address those topics in the context of auditing accounting estimates.
- Existing requirements do not provide specific direction about how to evaluate the relevance and reliability of pricing information from third parties and might have led to additional work and cost for some audits. PCAOB standards should be improved by revising the requirements in this area to drive a level of work effort commensurate with both the risks of material misstatement in the valuation of financial instruments and the relevance and reliability of the evidence obtained.

- The differences among the three existing estimates standards suggest that revising PCAOB standards to set forth a more uniform, risk-based approach to auditing estimates should lead to improvements in auditing practices in responding to the risks of material misstatement in accounting estimates, whether due to error or fraud.

PCAOB, 2018, p. 27

Figure 5

Examples of Cited Works, by Topical Category

Topical Category	Example Cited Works
Auditing, Accounting Estimates	Bell & Griffin, 2012 Bratten, et al., 2013 Bucaro, 2018 Cannon & Bedard, 2017 Christensen, et al., 2012
Auditing, Other	Biggs & Mock, 1983 Bierstaker & Wright, 2001 Carpenter & Dirsmith, 1992 Causholli & Knechel, 2012 Church & Shefchik, 2012
Accounting Estimates	Cullinan & Zhang, 2014 Laux & Leuz, 2009 Laux & Leuz, 2010 Song, et al., 2010
Accounting, Other	Ahmed & Duellman, 2013 Barth & Landsman, 2010 Healy & Palepu, 2001 Lambert, et al., 2007 Lambert, et al., 2012

Other	Aboody & Lev, 2002 Boltran & Thomas, 2017 Ben-David, et al., 2013 Brennan & Subrahmanyam, 1995 Chari, et al., 1988
Full citations are included in the References	