

E&Y CARAT NEWS BRIEFS

Ernst & Young Center for Auditing Research and Advanced Technology (E&Y CARAT)
Division of Accounting and Information Systems, School of Business,

The University of Kansas, Lawrence, KS 66045

No. 1, Fall 1995

DIRECTOR'S NOTE

As Ernst & Young Distinguished Teaching Professor and Director of the E&Y CARAT, I want to first thank Ernst & Young Foundation and members of the "E&Y Family" for their support. This is our first newsletter. I plan to publish "E&Y CARAT NEWS BRIEFS" every semester highlighting the activities of the E&Y CARAT.

As you can see below, we have a challenging mission at the E&Y Center. We are all excited about it. I personally feel that besides the challenge it provides us with exciting opportunities. We are able to engage ourselves and others in activities that were not easily possible earlier. For example, E&Y Student Research Assistantships not only provide financial support to undergraduate and graduate students but also provide opportunities for them to do research with E&Y Faculty Mentors. Currently we have three research assistantships: two at the MS level and one at the Ph. D. level. We plan to increase this number.



Rajendra P. Srivastava
Ernst & Young Professor and Director
The Ernst & Young CARAT

Also, the E&Y Distinguished Visiting Scholar program would not have been possible without the support of the E&Y CARAT. This has provided us with the opportunity to work with the leading researchers in the field which in turn will help us achieve our mission. As our first E&Y Distinguished Visiting Scholar, we had Professor Theodore J. Mock, Arthur Andersen Alumni Professor and Editor of *Auditing: A Journal of Practice and Theory*, University of Southern California. Once again, I want to thank E&Y Foundation for the support. Please read the rest of the newsletter for details on various activities of the E&Y Center.

MISSION

1. To conduct and disseminate state of the art research in auditing and advanced technology that is of value to the academic and professional communities.
2. To serve the auditing profession as a world leader in conducting high quality auditing research and integrating the research with advancements in technology to improve the efficiency and effectiveness of the audit process.

OBJECTIVES

The basic research of the Ernst & Young Center will focus on:

1. The structure of audit evidence, representation of uncertainty associated with the audit evidence, and how to aggregate such uncertain items of evidence.
2. The judgment and decision processes related to auditing.
3. The integration of new technology into the audit process.

E&Y CARAT'S ACTIVITIES

- **First Meeting of E&Y CARAT:** The Ernst & Young Center for Auditing Research and Advanced Technology had its first meeting on July 20, 1995. In the morning, a research seminar was arranged for the exchange of ideas between the E&Y CARAT's associates and Ernst & Young LLP. Jim Searing, Partner and Director of the Audit Innovation Team (current title: Director of Research), presented the E&Y views of the future and the direction and steps the firm is taking.
- **Business Meeting Held on July 20, 1995:** The Steering Committee of E&Y CARAT (Bruce Bublitz, David Plumlee, Jim Searing, Bill Taylor and John Wilgers) approved the budget for 1995-96 academic year.
- **Ernst & Young Faculty Mentors and Ernst & Young Student Research Assistants Selected:** Professors Ken Cogger and Kay Nelson are the Ernst & Young Faculty Mentors for the 1995-96 academic year. William E. Lewis, Jr. and Ashok Fichadia have been selected the Ernst & Young MS Research Assistants for the year. Peter Gillett has been awarded the E&Y Doctoral Fellowship for the 1995-96 academic year.
- **E&Y Director of Research Visited the E&Y CARAT:** Jim Searing, Partner and Director of Research, Ernst & Young LLP, spent a day (October 5, 1995) at the E&Y CARAT to learn more about belief functions and other research activities of the Center.
- **First Ernst & Young Distinguished Visiting Scholar at the E&Y CARAT, October 11-15, 1995:** Professor Theodore J. Mock, Arthur Andersen Alumni Professor, University of Southern California, and Editor of *Auditing: A Journal of Practice and Theory*, visited the E&Y CARAT for five days as the first Ernst & Young Distinguished Visiting Scholar. According to Professor Mock, he

had a very productive time at the E&Y Center. As a result of this visit, Professor Mock is working on two research projects with Professor Rajendra Srivastava, Director of the E&Y CARAT.

- **Center's Participation at the 1995 Annual Meeting of AAA:** (1) Professor Rajendra Srivastava, Director, E&Y CARAT, presented a tutorial on belief functions at the 1995 Annual Meeting of the American Accounting Association in Orlando, Florida, along with Peter Gillett, Ernst & Young Doctoral Fellow, and Professor Theodore J. Moch, Arthur Andersen Alumni Professor of University of Southern California. (2) Rajendra Srivastava and Peter Gillett presented their paper "Integrating Statistical and Non-Statistical Audit Evidence Using Belief Functions: A Case of Attribute Sampling." (3) Rajendra Srivastava presented his paper "Evidential Reasoning in Auditing" at the Research Workshop of the AI/ES Section of AAA.
- **Director Presented at Iowa State University:** Professor Rajendra Srivastava, Ernst & Young Professor and Director, E&Y CARAT presented the paper "Decision Making Under Ambiguity: A Belief-Function Perspective," at the Department of Accounting, Iowa State University, Ames, Iowa, on October 27, 1995.
- **E&Y CARAT's Research Workshop Activities:** The Ernst & Young Center for Auditing Research and Advanced Technology has been arranging two research workshops on every Friday starting from August 25, 1995, for sharing and exchanging research ideas amongst the faculty and Ph. D. students. One research workshop meets from 9:00-10:30 a.m. and is conducted in conjunction with Artificial Intelligence Seminar and the other meets from 1:30-3:00 p.m. in conjunction with Accounting and Finance Workshop. The details of the seminars are given below:

9:00 - 10:30 AM in 502 Summerfield Hall

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| Aug. 27: Organizational Meeting | 13: Theodore J. Mock, Arthur Andersen Alumni Professor, USC. |
| Sept. 1: Prakash Shenoy, Ron Harper Distinguished Professor of AI, KU, "Binary Joint Trees for Computing Marginals." | 20: Joe Coate, Assistant Professor, KU, "Changing Legal Cost and Audit Service Pricing." |
| 29: John Charnes, Associate Professor, KU, "Markov Chain Monte-Carlo Methods for Computing Marginals." | 27: Christine A. Botosan, Assistant Professor, Washington University, St. Louis. |
| Oct 6: Rajendra P. Srivastava, Ernst & Young Professor, KU, "On Evidential Theory for Auditing." | Nov. 10: Jere Francis, Arthur Andersen/Joeseeph Silvosio Professor, University of Missouri-Columbia. |
| 20: Marge Bott, Ph. D. Student in Nursing, KU, "Medical Applications of Artificial Intelligence." | 17: John Howe, Associate Professor, University of Missouri-Columbia. |
| 27: Lowell Buffington, "Software Tools for Decision Analysis: VALNET & CADET." | Dec. 1: Keith Harrison, Ph. D. Student, KU, "The Audit Risk Model Under the Risk of Fraud." |
| Nov. 10: Keith Harrison, Deloitte & Touche Doctoral Fellow, KU, "A Comparison of Bayesian and Belief-Function Audit Risk Models." | |
| 17: Sanjay Mishra, Associate Professor, KU, "A Comparison of Tools for Constructing Structural Equation Models fro Data." | |
| Dec. 1: Peter Gillett, Ernst & Young Doctoral Fellow, KU, "Integrating Statistical and No-Statistical Audit Evidence: The Case of Dollar Unit Sampling." | |

1:30 - 3:00 PM in 426 Summerfield Hall

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| Aug. 27: Organizational Meeting |
| Sept. 8: V.K. Narayanan, Professor of Business, KU, "Strategic Information, Wealth Effects, and R&D Project Announcements." |
| 15: Mike Ettredge, Associate Professor, KU "Stock Market Reaction to Auditor Resignations." |
| 22: Linda McDaniel, Assistant Professor, University of North Carolina, Chapel Hill. |
| 29: Robert Neal, Federal Reserve Bank of Kansas City, "Direct Test of Index Arbitrage Models." |
| Oct 6: Paul Koch, "Nonstationarity in the Correlation Structure Across International Equity Markets." |