

# E&Y CARAT NEWS BRIEFS

*Ernst & Young Center for Auditing Research and Advanced Technology (E&Y CARAT)*

## **DIRECTOR'S NOTE** **Holiday greetings!**

This has been an exciting semester, full of activities at the Ernst & Young Center for Auditing Research and Advanced Technology (E&Y CARAT).

We started the semester by awarding seven (compared to five in the previous years) E&Y Student Fellowships, six at the undergraduate/graduate level and one at the Ph.D. level.

This increase in the number of fellowships is partly due to the direct contribution by the "E&Y Family" to the Fellowship Funds and partly due to a special two-year \$200,000 grant from E&Y LLP to conduct research on digitizing businesses and developing metrics for measuring success and failure (e-risks) of e-businesses.

Under the E&Y Student Fellowship program, each student fellow is assigned to a faculty member, who serves as a mentor for the student. In return, each faculty mentor receives help in his/her research and teaching from the student. This program is working very well. Here is what Professor Bill Beedles, one of this year's E&Y Faculty mentors, says about this program and one of the students, Greg Ise:

"A central part of this type of fellowship program is the recognition and stimulation of some of our very best students, and that is exactly what you are doing in this case. Through sheer talent levered with hard work, Greg has achieved remarkable academic success. Being an E&Y fellow provides recognition for that fine work.

"More important still is the heightened expectations that comes from this recognition. Greg's character is such that being recognized as among the best will cause him to perform at an even higher level. That means we need to keep asking him to do more and more. The E&Y Fellowship does just that."

## **VISITING SCHOLARS**

Under the Ernst & Young Distinguished Visiting Scholars program, we have had the following visitors to the Center during the last year: Professor Jean Bedard, Joseph M. Golemme Research Professor

of Accounting, Northeastern University. Professor Alex Kogan, Associate Professor, Rutgers University-Newark.

Professor Theodore J. Mock, Arthur Andersen Professor of Accounting and Information Systems, University of Southern California.



Alex Koga, Liv Watson, and Raj Srivastava review data.

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Professor Miklos Vasarhelyi, Van Minden Distinguished Professor, Rutgers University, Newark.

Professor Arnold Wright, Arthur Andersen Professor of Accounting, Boston College.

The frequent visit to the Center by these scholars has generated a lot of research activities at the Center.

Professor Ettredge, Professor Richardson, and I are working with Professors Kogan and Vasarhelyi on issues related to e-commerce and e-risk metrics. Professor Theodore Mock and Arnold Wright and I are working on issues related to auditors' judgment behaviors. Professor Jean Bedard, along with her colleague Professor Ganesh Krishnamoorthy and I, are studying the impact of actual and perceived knowledge on audit efficiency and effectiveness.

Professor Robert W. Zmud is the newest member of the Ernst & Young Visiting Scholars. He is scheduled to visit during the Spring Semester of 2001. Professor Zmud holds the first Michael F. Price Endowed Chair in the Price College of Business at the University of Oklahoma. His outstanding research activity spans organizational efforts involved with managing and diffusing

information technology and the impact of information technology in facilitating organizational behaviors and outcomes. He recently served as Editor-in-Chief of the *MIS Quarterly*.

## **FRAANK PROJECT PROGRESSING**

The FRAANK (Financial Reporting and Auditing Agent with Net Knowledge) project is progressing well. This system currently obtains the financial information of a company from the Edgar database and populates the information into a database for financial analyses such as ratio analysis, trend analysis, and industry comparisons. We are conducting research on developing improved analytical on-line tools such as bankruptcy models and fraud models using FRAANK.

During November 18-20, Professors Vasarhelyi and Kogan, Ms. Liv Watson, Co-Chair of XBRL Steering Committee, Professor Ettredge and I worked on identifying areas where FRAANK can be of help to SEC in the development process of XBRL.

According to the XBRL Steering Committee, XBRL is a specification for the eXtensible Business Reporting Language. XBRL allows vendors, programmers,

and end users to enhance the creation, exchange, and comparison of financial reporting information. This financial reporting includes financial statements and information, non-financial information and regulatory filings such as annual and quarterly statements.

We are really excited about the opportunity to make a significant contribution to e-commerce through FRAANK in the development process of XBRL.



Raj Srivastava giving the keynote speech in Calcutta.

## **RESEARCH SEMINARS**

In addition to E&Y Student Fellowship program and E&Y Distinguished Visiting Scholarship program, the Center sponsors two research semi-

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nars that provide a forum to exchange research ideas among colleagues, students, and outside visiting scholars.

Schedules of the two seminars are listed later in this newsletter. Please also visit our home page at <http://lark.cc.ukans.edu/~srivasta/>.

Overall, we are having an exciting time at the E&Y Center. The research activities at the Center are not only providing high quality publications for the researchers but also providing materials for classroom usage. I would express sincere thanks to "E&Y Family" for their financial and moral support.

## HIGHLIGHTS OF DIRECTOR'S ACTIVITIES

Chief Guest of honor to address the graduating class of MBAs at the Eastern Institute for Integrated Learning in Management, Calcutta, India, September 25.

Keynote speaker at the National Seminar on Sustainability and Value Creation, Calcutta, India, September 26.

Attended Information Quality Conference at MIT, Boston, and worked with Professors Jean Bedard, Ganesh Krishnamoorthy of Northeastern University, on "Impact of Actual Knowledge versus Perceived Knowledge on Audit Effectiveness," and Professors Ted Mock

of USC and Arnie Wright of Boston College, on "Causal Schema and Multiple Hypotheses Evaluation in Auditing: A General Framework." October 17-23.

Keynote Speaker at the Fifth International Conference on Artificial Intelligence and Emerging Technologies in Accounting, Finance and Tax, Huelva, Spain, November 2-3.

## ERNST & YOUNG STUDENT FELLOWS

Greg Ise is a bachelors student in Accounting. He is assisting Professors Barry Baysinger and William Beedles on a research and writing project that combines literature in organizational economics and financial economics. This fall should witness completion of an article-length manuscript, and the goal for the spring is to start a book, targeted to professional managers. Greg is helping with library and bibliographic research and more importantly brings a fresh set of eyes and ideas to a controversial line of

investigation.

Shalin Sanjanwala is a student of MIS, assisting Professor Mike Ettredge in research on e-commerce. He is collecting data on e-companies to identify e-risks. This research will help us understand the factors that determine e-risks and non-e-risks.



*Meredith Zepetella, MAIS, has been an E&Y Student Fellow three years.*

**Susana Jeanette Sanchez** is a student of MAIS. She is assisting Professor Vernon Richardson on his research on E-commerce and financial reporting. As an E&Y fellow, she is collecting data to help find the determinants of e-commerce metrics (number of visitors, number of hits etc. at each corporation's web site).

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She is also collecting data to study the stock market reaction to IT alliances.

Andrew Vinciguerra is a student of MAIS. He is assisting Professor Susan Scholz in her research on the judgment and decision processes related to auditing. In particular, she is investigating the circumstances in which auditors (vs. the companies themselves) identify errors and irregularities that exist in financial statements. The results will have implications for materiality judgments and risk assessments related to specific accounts and fraud.

Meredith Zepetella is a MAIS student who will graduate this semester. Meredith has been assisting Professor Raj Srivastava on the FRAANK project for three years as an E&Y Student Fellow. Meredith is currently managing the FRAANK project with three programmers working under her: Gurunandan Pai, MS in EECS, E&Y Fellow; Balaji Meruva, MS CS, Andersen Consulting Fellow; and Xiaodong Du, MBA, Business School Fellow.

Gurunandan Pai is a student of MS in Electrical Engineering and Computer Science. He is assisting Professor Rajendra Srivastava on the FRANK project.



*Left, Lakshmy Sivaratnam, a second year doctoral student who helps maintain the E&Y CARAT web page, and Lili Sun, right, doctoral student.*

His main responsibility is to program the intelligence in FRAANK in Perl language.

Lakshmy Sivaratnam, a second year Ph.D. student, is assisting Professor Srivastava in maintaining the E&Y CARAT web page and assisting in his research on e-commerce and bankruptcy prediction

## **ACCOUNTING FINANCE SEMINARS**

Fridays, 1:30-3:00 p.m.

### **September Seminars**

Sept. 1: Mike Ettredge, University of Kansas, "Security Market Effects Associated with SFAS No. 131 Concerning Reported Business Segments."

Sept. 8: Steve Sutton, Oklahoma State University, "The Impact of Electronic Commerce Assurance on Financial Analysts' Earnings Forecasts and Stock Price Estimates."

Sept. 15: Jim Waegelein, University of Kansas, "The Influence of Long-Term Performance Plans, Method of Payment and Type of Acquisition on Postmerger Financial Performance."

Sept. 22: Sunil Wahal, Emory University, "Momentum Trading by Institutions."

Sept. 29: Toni Whited, University of Iowa, "Is it inefficient investment that causes the diversification discount?"

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## October Seminars

Oct. 6: Todd Pulvino, Northwestern University, "Characteristics of Risk and Return in Risk Arbitrage."

Oct. 13: Craig Pirrong, Washington University, "Third Markets and the Second Best."

Oct. 20: Tim Loughran, University of Notre Dame, "Discounting and Clustering in the Offer Price of SEO's, 1991-1999."

## November & December

Nov. 3: Scott Masten, University of Michigan, "Commitment and Political Governance: Why Universities, Like Legislatures, Are Not Organized As Firms."

Nov. 17: Anup Agrawal, University of Alabama, "CEO Succession: Insiders vs. Outsiders."

Dec. 1: Karim Jamal, University of Alberta, "Expertise Management by Public Accounting Firms."

Dec. 8: Peter Wysocki, University of Michigan, "The Walk-down to Beatable Analyst Forecasts: The Roles of Equity Issuance and Insider Trading Incentives."

## MANAGEMENT SCIENCE SEMINARS

Fridays, 10:30 AM-12:00 PM

### September Seminars

Sept. 1: Prakash P. Shenoy, Dist. Prof. of Business, KU, "Making Decisions with Qualitative Probabilities."

Sept. 8: Prakash P. Shenoy, KU, "Conditional Independence: Definitions, Semantics, and Properties."

Sept. 15: Prof. Gerald Haubl, University of Alberta, "Electronic Recommendation Agents and Preference Construction."

Sept. 22: John M. Charnes, Assoc. Prof. of Business, KU, "Simulation Methods for Option Pricing."

Sept. 29: Prashant Palvia, Professor and Head of IS&OM, U of N. Carolina-Greensboro, "A Model and Instrument for the Global Impact of IT Applications."

### October Seminars

Oct. 6: Brenda Mak, Asst. Prof. of IS, KU, "WebInfo: Agent-based Keyword Indexing and Document Filtering."

Oct. 13: James J. Jiang, Dept. of CIS, Louisiana State University, "SERVQUAL Reliability and Validity in Information System Service Quality Measurement."

Oct. 20: Peter Spirtes, Assoc. Prof., Carnegie-Mellon University, "Mining Data for Causal Relationships."



*Raj Srivastava, Jim Searing, and former dean Tom Sarowski*

Oct. 27: Sivaprasad Gogineni, Dist. Prof. of EECS, KU, "Fusion of Active and Passive Micro-wave Data for Estimating Sea ice Characteristics."

## November & December

Nov. 3: W. M. Kim Roddis, Professor of Civil Engineering, KU, "Computational Support for Decision Making about Steel Bridges"

Nov. 10: Costas Tsatsoulis, Prof. of EECS, KU, "Multiagent Negotiation for Constraint Satisfaction"

Nov. 17: Catherine Shenoy, Asst. Prof. of Business, KU, "A Systematic Approach to Adding Expert Judgment to Portfolio Analysis"

Dec 01: Marie Buche, Ph.D. student, KU, "Standard Oil and Microsoft: A Comparative Causal Mapping Approach."

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Dec 08: Ken Mackenzie, Dist. Prof., KU, "Knobby Analyses of Knobless Survey Items."

## PUBLICATIONS AND WORKING PAPERS

Chatterjee, Richardson and Zmud, "Examining the Shareholder Wealth Effects of Announcements of Newly Created CIO Positions," *MIS Quarterly*, Accepted and Forthcoming, 2001.

Ettredge, Richardson and Scholz, "An Emerging Model of Web Site Design for Corporate Disclosure: Targeting Information Clienteles," *Communications of the ACM*, Accepted and Forthcoming, 2000.

Ettredge, Richardson and Scholz, "Timely Financial Reporting at Corporate Web Sites?" *Communications of the ACM*, Accepted and Forthcoming, 2000.

Ettredge, Richardson and Scholz, "Going Concern Auditor Reports at Corporate Web Sites: A Regulatory Loophole?" (lead article), *Research in Accounting Regulation*, Accepted and Forthcoming, 2000.

Ettredge, Richardson and Scholz, "The Presentation of Financial Information at Corporate Web Sites," *International Journal of Accounting Information Systems*, Vol. 2 No. 1 Forthcoming, March 2001.

Ettredge, Richardson and Srivastava, "Assessing the Risk in E-Commerce," Working Paper, University of Kansas.

Harrison, Srivastava, and Plumlee, "Auditors' Evaluations of Uncertain Audit Evidence: Belief Functions versus Probabilities," in *Belief Functions in Business Decisions*, edited by R. P. Srivastava and T. Mock, Physica-Verlag, Heidelberg, Springer-Verlag Company (forthcoming).

Joseph and Richardson, "Free Cash Flow, Agency Costs and the Affordability Method of Advertising Budgeting: An Empirical Investigation," *Journal of Marketing*, under second review.

Richardson, "Information Asymmetry and Earnings Management: Some Evidence," *Review of Quantitative Finance and Accounting*, Vol. 15 No. 4 December, 2000 pp. 325-347.

Richardson, Saunders and Zmud, "Using E-Commerce Metrics to Evaluate Internet Firm Performance," *Information Systems Research*, under review.

Richardson and Zmud, "Wealth Effects Accompanying Appointments of Outside Directors to the Boards of Internet Companies," *Information Systems Research*, under review.

Richardson and Zmud, "Shareholder Wealth Effects of IT Alliances," *Academy of Management Journal*, under review.

Srivastava, and Lu, "Structural Analysis of Audit Evidence using Belief Functions," *Fuzzy Sets and Systems* (forthcoming).

Nelson, Kogan, Srivastava, Vasarhelyi, Lu, "Virtual Auditing Agents: The EDGAR Agent Challenge," *Decision Support Systems* (28) 3 (2000) pp. 241-253.

Srivastava, and Mock, "Belief Functions in Accounting Behavioral Research," in *Advances in Accounting Behavioral Research*, vol. 3, Jai Press Inc., Stamford, Connecticut, 2000, pp. 225-242.

Gillett, and Srivastava, "Attribute Sampling: A Belief-Function Approach to Statistical Audit Evidence," *Auditing: A Journal of Practice and Theory*, Vol. 19, No. 1, Spring 2000, pp. 145-155.

Srivastava, and Mock, "Evidential Reasoning for WebTrust Assurance Services," *Journal of Management Information Systems*, Vol. 10, No. 3, Winter 1999-2000, pp. 11-32.