



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

**Request for Proposals
For Academic Research in Auditing
December 2013
Proposal Deadline: Monday, March 3, 2014**

Background

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions.

The CAQ is committed to providing opportunities for the academic community to work closely with the profession. In 2008, the Center established a Research Advisory Board (RAB), comprised of representatives from academia and the profession. In the past five years, the RAB has awarded a number of grants for independent academic research projects on topics of interest to the profession.

The CAQ is keenly interested in supporting archival research, literature reviews and syntheses, descriptive analyses, meta analyses, and behavioral/experimental studies.

The CAQ convenes an annual Auditing Research Symposium that provides an opportunity for a robust dialogue between the profession and academia on key issues that practitioners face in the conduct of an audit. One goal of the Symposium is to provide academics insights they can use to generate ideas for research in auditing that might inform practice. At the [2013 CAQ Symposium](#), senior practice leaders and academics participated in panel presentations and breakout discussions on audit committee effectiveness and its impact on the financial reporting process.

Areas of Interest

For 2014, the CAQ is especially interested in proposals that address one of the topics listed below. These topics, and the examples presented, are illustrative of areas that the CAQ believes will prove helpful to practice.

Audit Committee Effectiveness

Audit committees play a critical role in the financial reporting process. [Discussions at the Symposium](#) explored the responsibilities, best practices, characteristics, policies, and structure of effective audit committees. For the first time, the CAQ videotaped the Symposium panel discussions and is making them available on its web site, along with a summary of the breakout discussions that were held with practitioners and the academics in attendance. The CAQ is interested in research that will inform any aspect of the Symposium discussion topic or existing research by adding to the current understanding of the affect audit committees have on the financial reporting process and the audit.

Audit Quality Indicators

The CAQ recognizes that there have been a variety of research projects and global initiatives centered on the topic of audit quality, but none have yet resulted in universal agreement on a definition, audit quality framework, or the most relevant measures to assess audit quality. Realizing the importance of a common understanding of audit quality, the CAQ undertook an initiative to develop and communicate a point of view on audit quality, including the key elements of audit quality and potential indicators. The CAQ also has closely followed the PCAOB's Audit Quality Indicators (AQI) initiative and is supportive of the its efforts. A variety of different AQIs have been identified and considered by the CAQ, including those the PCAOB staff shared with the Standing Advisory Group (SAG) at its May 2013 meeting. Views on AQIs have been quite varied and perceptions tend to differ depending on, among other factors, the degree to which various stakeholders are involved in the audit process. For instance, audit firms view audit quality as a continuous process, and utilize a wide range of information to drive improvements in audit methodology, training, supervision, monitoring, etc.

Other stakeholders may place greater emphasis on audit outcomes (e.g., restatements, litigation, PCAOB inspection results, etc.) or inputs (e.g., experience of audit staff, industry expertise, etc.). Since audit committees are tasked with compensation, oversight and hiring/firing of the audit firm, the views of this stakeholder group is of particular interest – what areas do they find most useful in assessing the quality of the audit?

This is no doubt a challenging, yet very important, initiative and the CAQ is looking to play a constructive role in helping to drive progress. The CAQ hopes to explore the linkage between audit inputs and audit outcomes in order to identify those AQIs which provide the most relevant insights on matters that could affect audit quality. For example, how do possible AQIs related to operational inputs identified by PCAOB (ratio of partners to staff, number of accounting and auditing consultations, or technical resource FTEs) or process (level of firm investment in quality infrastructure, PCAOB inspection findings, number and size of auditor resignations) impact audit results such as trends in restatements, or number of material weaknesses cited in conjunction with material errors?

The CAQ is interested in research that would provide perspective on the relationships discussed above, as well as perspectives on the firms' audit quality (transparency) reporting at the U.S. and global level.

Professional Skepticism (PS)

Professional skepticism is a key component of audit quality. Audit firms continually seek ways to foster the proper application of skepticism in practice. *The following questions are illustrative of PS issues that are of interest to practice:*

- What influences the ability of senior audit team members to be skeptical in the field?
- What would enhance the application of skepticism in the field?
- What are effective ways to document the consideration of alternatives/evidence such that the audit documentation demonstrates skeptical thinking in the assessment of audit evidence?
- Does the increased use of specialists impact skepticism? Do specialists exhibit the same level of professional skepticism as other members of the engagement team?
- How do cultural norms impact auditor skepticism in multi-jurisdictional audits?
- Does the use of more prescriptive auditing standards in the U.S. impact the degree of skepticism? Do differences that exist in the regulatory structure/ mindsets across other jurisdictions promote or impede skepticism?
- How does the increased use of electronic vs. face-to-face communications impact the ability to be skeptical?

Professional judgment

Professional judgment is used by preparers and auditors in the application and interpretation of financial reporting standards. The CAQ is interested in academic research that can provide insights into how

preparers and auditors apply professional judgment and what factors might impact the application of judgment. Some specific areas of focus include the evaluation of the reasonableness of estimates of fair values, impairments, development stage intangibles, contingent liabilities; the ability to audit complex accounting estimates; effects of a principles-based versus a rules-based approach to accounting/auditing standards.

Financial reporting fraud

Financial reporting fraud continues to be an area of key importance to the CAQ, and the focus of its collaborative partnership with the Financial Executives International, The Institute of Internal Auditors, and the National Association of Corporate Directors. Broad areas of interest include understanding the conditions that contribute to fraud and assessing related risks; lessons and insights from past frauds that could prove useful in deterrence and detection; mitigating the risks associated with a focus on short-term results on financial reporting; the role of information technology in facilitating the deterrence and detection of fraudulent financial reporting; and the effectiveness of whistleblower programs.

Communication and information technology

The profession is interested in the impact of communication and information technologies on the audit (e.g., determinations of the sufficiency of evidence; the confirmation process, including areas of use, reliability of information, response rates, form of confirmation requests, impact of third party service providers and challenges associated with an electronic form of confirmation; communications between audit staff and company personnel.)

Value of the audit

Another area of interest is the value ascribed to the audit (e.g., debt and equity market effects; the value proposition of audited financial information; the view of stakeholders).

Note: The examples above under each topic are illustrative. The CAQ will consider proposals for research with a domestic or international dimension on any of these topics. Any appropriate research method can be employed.

Proposal Instructions

Proposals should be concise and contain the following elements:

- Statement of the Research Question/Problem
 - ❖ Proposals should include a description of the general question that the research will address and how the proposed project relates to that question/problem (what parts of the question the project will address). It should also describe how the research will inform practice.
- Theory
 - ❖ Proposals should include a well-developed narrative about the theory behind the proposed research question(s) to be addressed.
- Relationship to Existing Research
 - ❖ How does the proposed project differ from existing research? Explain how the proposed study builds on the extant research on the topic.
- Hypotheses/Specific Research Questions
 - ❖ What specific hypotheses will be tested/questions addressed?
- Methodology
 - ❖ How will the research be conducted? Proposals should provide a detailed research plan.
 - ❖ What is the current status of the research? If the researcher has begun to implement the research plan, (e.g., researcher has developed a data collection protocol or has gathered data from a pilot study; researcher has created a database of observations from a secondary data source) include this information in your proposal submission.

- Resource Needs
 - ❖ What resources are required? Proposals should articulate what resources will be needed to complete the study, and what assistance is being requested of the CAQ and its member firms (e.g., funding request, access to professional staff – including experience and/or industry requirements, secondary data sources).

While there is no restriction on the number of pages, proposals should be focused. In addition, researchers are strongly encouraged to include an executive summary (no longer than two-pages) that is written for a non-academic audience.

Other required information includes the following:

- Itemized budget including budget rationale. Note that the CAQ requires a waiver of university overhead and will not pay for the travel to conferences or for journal submission fees. CAQ member firms do not permit researchers to offer payment or gifts to audit personnel for participating in research studies.
- Detailed timeline with milestones and deliverables.
- Identification of proposed members of the research team (e.g., project director, research assistant, staff scientist, faculty), including a brief description of their roles.
- Level of effort (in hours) proposed for each of the research team members.
- Curriculum vitae for the proposed principal investigator and other key members of the research team.
- Other information that the research team believes will assist in the review of the proposal.

The number of projects selected for funding will depend on the quality and number of proposals received and the total dollar amount of funds requested. The RAB anticipates making available a total of approximately \$200,000 to fund multiple projects during this submission period.

Submission process

The CAQ has instituted a new online process for submitting proposals for research grants. To submit your proposal, please [click here](#) and follow the instructions.

To be considered, proposals must be received **on or before Monday, March 3, 2014**.

Proposals will be reviewed by the CAQ's Research Advisory Board. Grants will be announced on or about **May 30, 2014**.

Questions should be addressed to Tom Payne (tpayne@thecaq.org).