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**HIGHLIGHTS**  
FROM BREAKOUT DISCUSSIONS

# Highlights from Breakout Discussions

Attendees at the Tenth Annual CAQ Symposium were assigned to small groups to discuss issues raised in the two panel presentations:

I. Navigating the Challenges of New Standards: Lessons for the Future

II. Evolving Needs for the Audit in 2023

Comprised of research academics and senior public company audit practice leaders, each breakout group was assigned a set of questions to address. Regulators participated in two of the eight small group discussions.

The following summary provides highlights of those discussions. The highlights do not necessarily represent the views of any specific individual, firm, or CAQ Governing Board member.

## I. NAVIGATING THE CHALLENGES OF NEW STANDARDS: LESSONS FOR THE FUTURE

Symposium participants explored lessons that could be drawn from the challenges that companies and audit firms experienced in the implementation of the revenue recognition standard (ASC 606). These lessons included the following:

- 1. The benefits of collaboration** — Many practitioners noted the beneficial collaboration between industry, auditors, the Financial Accounting Standards Board/International Accounting Standards Board Transition Resource Group for Revenue Recognition, and the Securities and Exchange Commission (SEC) during the implementation process.
- 2. The danger of underestimating effort required** — In the smaller breakout discussions, the practitioners reiterated a point made in the panel session—many preparers underestimated the level of effort that would be required to fully implement the new revenue recognition standard and waited too long to get started. Even in cases where the standard changes would have a quantitatively immaterial impact on the financial statements, Symposium participants noted that a good deal of work was required to demonstrate that fact. It was also noted that the required

disclosures were not immaterial for several companies.

**3. The importance of sufficient staffing** — In essence, the adoption of a new standard is a change-management exercise for companies. Many issuers thought that they could work through all the necessary changes with their current staff resources and did not appreciate that their implementation plans would require additional staff or the use of outside consultants.

**4. Challenges for smaller issuers** — New accounting standards will impact not just the accounting policies, but also the systems, processes, controls, and disclosures. There was some consensus that smaller issuers would have a harder time keeping up with the cumulative effect of changes in accounting due to the fact that several standards are going into effect in the coming years. These smaller companies may not have the bandwidth internally to handle all of the requirements necessary to ensure adherence to the new standards.

While the implementation of the new revenue recognition standard was a challenge for preparers and auditors alike, both groups have gotten better at communicating about the implementation issues. This improvement bodes well for communications around implementation of the new leasing and credit loss accounting standards.

## Addressing Accounting Standard Changes in the Classroom

Some participants discussed how adoption of a new standard might be covered in university classes.

- 1. Case study** – Several academics agreed that it would be beneficial to have a case study that illustrated the process a company took to identify and address how a new accounting standard would impact the accounting, reporting, information systems, and internal controls related to that standard. The case could also cover how the audit process was impacted by the implementation of the new standard. Such a case could highlight interrelationships between these functions.
- 2. Integrated approach to teaching** – Another suggestion was to have faculty develop a more integrated approach to teaching so that professors



can pull concepts from a previous class (e.g., Accounting 1 or Intermediate Accounting) and build upon it in future classes.

- 3. Video game** – Another idea was to create a multilevel video game that featured different scenarios and course content that students could apply, thus learning at their own pace.

### Adoption of New Accounting Standards and the Auditor’s Risk Assessment

New accounting standards have an impact on the auditor’s risk assessment. The engagement team must review the company’s implementation plan and consider whether or not the company has adequate resources to execute against the plan. Another potential risk that auditors will consider is the competency of the company employees who will be tasked with implementation.

Even before a new standard goes into effect, auditors must address a series of important questions as part of their risk assessment:

How will the standard impact controls and processes at the company?

Will the controls be manual or automated? Will they be sustainable?

Will the control evolve over time and, if yes, how does that impact audit risk?

Participating in the audit of the application of a new standard is a great learning process for young auditors. Auditors must understand the business of the companies they audit and the environment in which they operate. Conversations about the specifics of the standard and the changes it is driving will cause people to remember and learn.

Although students often learn about risk in an internal audit class, several discussants noted that students do not fully grasp the concept of risk. One way to introduce the concept is to start with things the students can relate to: locks, cameras, and other safeguarding controls. From there, students can explore the more nuanced world of financial statement controls. Several discussants stressed the importance of students learning about the entire control environment, and how to evaluate the effectiveness of controls.

### Potential Areas for Academic Research

Major changes in accounting standards can provide rich ground for academic research.

- 1. Measuring success** – Did the standard change achieve its objective?
- 2. Impact on processes and controls** – More than one participant suggested that there are ample opportunities to write case studies on how the accounting standard changes impacted company processes and controls.

3. **Stakeholder reaction** – Other participants mentioned that there are several research questions that could address investors’ and other stakeholder groups’ reaction to changes in accounting standards: What impact did these changes have on investor decisions? Do investors and analysts understand what the changes in revenue recognition mean? What type of education has the investor relations community done with respect to how the accounting standard changes have impacted SEC filings?
4. **ICFR** – Research on internal control over financial reporting (ICFR) results could provide insights into how well companies managed the changes in their control processes to address the requirements of the new standards. Will companies and auditors identify more material weaknesses in controls over the next few years because the controls that were put in place proved to be ineffective?
5. **ARM** – A few of the breakout groups discussed potential research questions around the PCAOB’s 2017 standard on the auditor’s reporting model (ARM), which will require the auditor’s report to include disclosure of critical audit matters (CAMs). How will investors and analysts interpret the reporting of a CAM? Will all critical accounting estimates necessarily result in a CAM? Will management begin to limit the number of areas they disclose as critical accounting estimates? Might there be other unintended consequences of this new standard? Several firms have conducted “dry runs” on their engagements. Some have also held in-depth discussions with audit committees and management about potential CAM areas to educate and prepare them for 2019, when the auditor will start to report CAMs.

## II. EVOLVING NEEDS FOR THE AUDIT OF 2023

A major topic of discussion revolved around whether accounting students already exhibit the desired mindsets—analytical, global, growth, innovative—or need to be taught these mindsets during their undergraduate career.

Many participants agreed that while these mindsets may be innate for some students, the majority do not adequately exhibit such traits. Participants explored what educators can do to help students acquire these mindsets, thus preparing them for a successful career in audit. Two behaviors stood out from the

rest and dominated the discussions: critical thinking and professional skepticism.

### Critical Thinking and Professional Skepticism

Critical thinking and professional skepticism are identified by firms as two key attributes that early career professionals simply must have.

Some of the smaller groups discussed how to define critical thinking. Some participants viewed critical thinking as the ability to look at things in many different ways. Others proffered that it was the ability to look at things in a new way—and to draw different conclusions. Similarly, participants contemplated if critical thinking precedes professional skepticism, or vice versa. Many of the academics felt that professional skepticism and critical thinking are one in the same; to be professionally skeptical, one must be able to think critically.

No matter how they defined these attributes, all participants agreed that incorporating critical thinking exercises into classroom teaching is a must. The question, though, is what is the best way to spur critical thinking and skepticism in the students? Different approaches were shared.

1. **Focus on a company** – Many of the academics noted that they assign students a public company and require them to read through Form 10-Ks and 10-Qs, as well as earnings releases, transcripts of investor calls, social media postings, and other publicly available data. Their assignment is to critically assess the company’s business model, and potential issues and risks.
2. **Multistep projects** – Another suggested teaching approach is to present students with multistep projects that they work on over the course of the semester, either individually or in groups. Students are presented with new problems to reason through every week or two.
3. **Review of an Analytic Procedure** – In an effort to get students to think critically about an audit task, one academic said that he presents them with the findings of an analytic procedure on an account that was performed using Excel. He then tasks them with identifying unexpected variances and errors and articulate how they came to their conclusions. This assignment requires students to evaluate plausible relationships between financial



data in a given period and conditions that might cause variations in those relationships.

Symposium discussion also addressed the challenges of nurturing critical thinking. Many academics pointed out that the accounting program curriculum is designed such that students learn what they need in order to sit for and pass the CPA exam. Because there is so much basic material to cover, it can be a challenge for educators to incorporate into their coursework exercises that develop skills such as critical thinking and professional skepticism. Additionally, professors feel they must cover a range of other topics to prepare students for a future in public accounting and auditing, including data analytics, visualization, and artificial intelligence.

Another issue raised by several Symposium attendees was students' focus on getting to the right answer. Students tend to be uncomfortable with ambiguity, so they need training in the clear thinking and reasoning to support conclusions in ambiguous

situations. Others mentioned that the increased use of technology in our daily lives may hinder the development of critical thinking skills. Today's students grew up on Google, Alexa, and Siri. They often rely on the answers presented and don't always question the validity of the responses. These habits are not consistent with how auditors need to approach their given tasks.

### Developing Communication Skills

Both academics and practitioners discussed how the millennial and "Gen Z" generations can be informal in their communications. With a widespread preference for texting over emails and phone calls, many have not developed good written and oral communications skills by the time they join the profession. Academics acknowledged that they have a responsibility to teach and reinforce these skills. It was suggested that (1) school assignments include more written or presentation-based requirements and (2) class grades take into consideration the demonstration of these skills. ■