

Eighth Annual CAQ Symposium

Waldorf Astoria Hotel • August 7, 2016

Highlights from Breakout Discussions

At the Eighth Annual CAQ Symposium, attendees were assigned to small groups to discuss issues raised in the two panel presentations: *Innovative Approaches to the Development of Auditor Talent*, and *Internal Control Over Financial Reporting – Auditor and Preparer Challenges*. Each breakout group, comprised of research academics and senior profession leaders, was assigned a set of questions to address. Regulators participated in two of the groups.

The following summary provides highlights of those discussions. The statements made by the attendees during these discussions do not necessarily reflect the views of the Center for Audit Quality (CAQ) or of its member firms.

I. Innovative Approaches to the Development of Auditor Talent

On talent, breakout sessions focused on two primary issues. The first of these issues was the talent pipeline. How can academics and the profession attract students in general—and diverse students in particular—into accounting programs and careers in public company auditing? The second issue was skills development. Which skillsets are important for the public company auditing profession—and how can academics begin to introduce those skills in undergraduate programs?

a. Pipeline

Audit firms not only compete with each other for the best and brightest campus hires out of the accounting programs, but they also compete with companies outside the profession. Meanwhile, universities seem to face a similar challenge in motivating students to pursue a career in accounting, versus other business majors.

The latter challenge is particularly acute when it comes to questions of diversity. Audit firms are keenly interested in assuring that they will have a diverse workforce, and building a diverse public company auditing profession starts with attracting students with diverse backgrounds into the universities' accounting programs. While business schools on the whole have increased the diversity of their student body, the diversity in accounting remains limited. Latinos and African Americans are underrepresented in accounting programs which impacts the firms' ability to hire diverse candidates from the schools they target. Several academics in the breakout groups noted that their business schools are competing with the other schools and programs within their university for diverse students.

Another challenge is fighting several incorrect or out-of-date perceptions of the accounting and auditing professions.

- Students and teachers often perceive accounting as a simpler trade, not a profession. In many high schools, for example, accounting is “pitched” as bookkeeping, which does not require a college degree.
- Accountants are often still portrayed in the media and elsewhere as “nerdy bean counters.”
- Many students perceive accounting as just mere number-crunching—they may not grasp that accounting is the language of business.

Participants discussed a number of suggestions to help change the perception of the profession and to help attract new students. Several breakout groups mentioned the need to reach students at the high-school and even middle-school levels—outreach that could be done by both the academic community and the profession. As one participant stated, everyone needs to do a better job in educating students on the opportunities available in public accounting. High school counselors may not know enough about the profession, or have the resources to suggest accounting as a career path. A few participants suggested that allowing high school students to earn college credit for accounting through an approved Advanced Placement (AP) class could work to (1) engage them earlier and (2) dispel the perception that accounting is merely bookkeeping.

Yet increasing the pipeline requires more than broad education/awareness programs. Several participants noted that academics and the profession should address several other issues that may be impediments to entering the profession.

- Keeping salaries competitive. One such impediment is the opportunity cost of auditing. Entry level salaries for audit associates are no longer as competitive as they once were; students are starting to question why they should choose a career in auditing when they can earn higher salaries in consulting.
- Addressing challenges of the Uniform CPA Examination. Several academics raised the point that the CPA exam and the 150 credit hours necessary to be licensed is seen as an impediment for many students.¹ A participant cited a recent study that found that the 150-hour requirement has a greater negative impact on African Americans, Latinos, and first generation college students, which led some to note that the extra time and/or money to stay and earn additional credit hours to sit for the CPA exam is cost-prohibitive for these students.
- Illuminating the value of a master’s degree. Many students are not convinced of the value of the master’s in accounting degree. Currently, audit firms do not place extra weight or provide incentives for those entering the profession with a master’s degree (versus earning the 150 hours in undergraduate courses). Students with graduate degrees often do not receive bonuses or higher compensation as compared to students without graduate degrees. Studies have shown that the payoff for a master’s degree becomes evident after two years, but those advantages may not be apparent to those considering a career in public accounting. One firm representative felt that the firms could do more in the way of scholarships and grants and better convey the value of the CPA licensure.

¹ The CAQ has developed a [college and university toolkit](#) that highlights the many benefits of a career in public accounting, the value of the CPA license, and presents information on the types of support that many firms provide early career professionals in their quest to pass the CPA exam. The AICPA’s website, ThisWayToCPA.org, contains a wealth of information on scholarships available for students to help defray the cost of a college education.

b. Skills Development

A key part of developing auditor talent is having mechanisms to integrate new skillsets into the curriculum so accounting students enter the profession with these skills. Academics are looking for new ways to adapt their programs to meet the current demands of the profession without sacrificing building core competencies such as exercising professional judgment, communications, professional skepticism, and critical thinking.

The discussion touched on several areas of skill development.

- **Big data and data analytics.** Professors are trying to find ways to add data analytic competencies into the accounting curriculum, though it is not an easy task. Academics encounter difficulties when adding more material to an audit course, or more courses to the accounting curriculum. At some institutions it may be necessary to cut something out of the curriculum in order to add a new class. For those schools that have already started building data analytics into their course work, many have taken a multidisciplinary approach, working with professors from a variety of departments including computer science and astronomy.² Other universities have taken a case-based learning approach for data analytics.
- **Basic computer skills.** One practitioner mentioned that students are not learning sufficient computer competencies; many do not have advanced Microsoft Excel or Word skills. Several academics conceded that it is a challenge to convince students to acquire such proficiency. They noted that it is only after the students come back from internships that they come to appreciate the need to develop these skills.
- **“Soft” skills.** In a sense, auditors are in the people business and have to deal with conflicts with management at the companies they audit on a frequent basis. An important skill to hone is cultivating relationships with the company management outside of times of conflict as one way to mitigate or de-escalate conflict. As a core competency, communication skills are integral to long-term success in the profession, along with writing and presentation skills.

Teaching these soft skills can be challenging. One approach that an academic indicated had been very successful was having students hold mock client interactions to practice having difficult conversations with company management. Students were assigned to either the auditor or the management role and given an issue that was ambiguous. They had to anticipate the position that the other side would take and try to persuade them to their point of view. During the exercise the students started to better understand the psychology behind their interactions and the value of cultivating relationships. Having a good understanding psychology is an extremely important asset.

II. Internal Control Over Financial Reporting – Auditor and Preparer Challenges

Symposium attendees watched [two video vignettes](#), developed by the CAQ, that provide a glimpse into the challenges that auditors face in obtaining the appropriate amount of documentation to support management assertions during the audit of management review controls.³ The vignettes also demonstrate the types of conversations that occur when auditors are assessing the internal controls used by management.

² You can view the presentation that Jon Davis, the Head of the Department of Accountancy at the University of Illinois, Urbana-Champaign, gave to the Symposium attendees on the three-course specialization that Illinois has developed in its master’s program. It is available at www.thecaq.org/research/caq-annual-symposium.

³ The videos are available at www.thecaq.org/video-vignettes-classroom-and-training-resources.

With these vignettes as a starting point, breakout discussions allowed academics and practitioners to explore documentation issues, controls testing, and how students are introduced to internal control over financial reporting (ICFR) in their classes.

a. Documentation Issues

The vignettes highlighted an issue with the precision of a review control. In the scenario, management has signed off on a memo that documented management’s consideration about their goodwill impairment analysis. However, in reviewing management’s conclusion memo, the auditor has difficulty determining how rigorous the actual review was.

This situation is a common one. Auditors are required to obtain evidence of the process management went through – what challenges they made to their assumptions, and how management considered contradictory evidence during the review. Management’s documentation of how they introduced and addressed alternatives to their approach can demonstrate to the auditor the judgment and decisions made by management. Preparers often struggle to fully document the extent of the process they undergo when performing management reviews. Additionally, smaller companies may have less formal or robust processes and procedures due to resource constraints.

In the discussion of the vignettes, practitioners noted that the managers of these small and mid-sized companies may be more sensitive to questions from the auditor about the company’s level of review. Auditors should take these opportunities to educate management about what constitutes appropriate documentary evidence and help them understand that the profession is trying to understand the thoroughness of the process to support the ultimate conclusion (and not just the conclusion).

Participants also noted that company management should not hesitate to document when a review control catches an error; auditors would view that as evidence that management is being thorough in their review process. The key to a strong understanding of the process is early and frequent communication, which will allow the auditor to identify the appropriate documentation to evidence management’s process and review.

b. Control Testing and Evaluation

Several practitioners noted that performing a truly integrated audit continues to prove challenging. Control testing is often performed earlier in the audit period, especially for the transaction-level controls. Where auditors spend their time can become a source of contention. Review type controls, such as controls over the annual goodwill impairment testing, or fluctuation analyses, often operate less frequently (annually, quarterly or monthly), and are more likely to be tested concurrently with audit team’s substantive testing.

Difficulties arise when management concludes that the control is operating effectively because there has never been an exception for the control. However, an immaterial error may be identified by the auditor during substantive testing. In this situation, the auditor must focus on why the control did not identify the error and use professional judgment as to whether the control really operated as intended or “could” there have been a larger error. These situations can be challenging for auditors and frustrating for company management, particularly in situations where the financial statements are not materially impacted but the auditor uncovers a possible significant deficiency or a material weakness in ICFR.

c. Teaching Internal Controls

Internal controls are generally taught as part of an accounting information systems (AIS) class and/or the undergraduate auditing class. Some universities offer an internal audit class that would cover ICFR. Education on ICFR can happen in conjunction with teaching the Committee of Sponsoring Organizations' (COSO) framework, which can provide the context about the control objectives. Academics pointed out that students do not fully understand how ICFR relates to enterprise risk or the COSO framework. Some of the academics conceded that the curriculum around ICFR was “stagnant” and has not kept pace with the changes in auditing of ICFR in practice.

Getting students to think about what “could” go wrong with a control, and the risks to which different processes are inherently exposed, continues to prove challenging. A few discussants thought that one solution would be to integrate ICFR and financial reporting in the classroom. Students could be asked to identify potential risks to the financials and link those risks to specific controls that could mitigate those risks. Accounting students who do not go into public accounting at the start of their careers would benefit from a deeper understanding of internal controls, as they primarily are headed into careers in finance and controllerships.

A few academics mentioned that students often have their internships with the firms prior to taking an audit course and learning about ICFR, so they do not fully appreciate how the tasks they are performing (testing controls) fit into the audit. The practitioners took note and suggested that the firms could do a better job of providing the broader perspective about why the tasks interns are charged with performing are important. When interns are told to match up purchase orders to invoices it seems like busy work to them; they do not realize that they are testing an important control. This could be reinforced in the classroom and in firm training if there was an increased emphasis on describing how the transactional controls feed into higher level management review controls and entity level controls so that students can “see the big picture.”

