

RAB Request for Proposals - Topics of Interest in 2019

Deadline: Thursday, March 14, 2019; 12:00 Midnight PDT

The CAQ is interested in research questions that can substantively inform audit practice or address policy and regulatory issues that impact audit quality and the profession. Below are brief descriptions of suggested topics that are listed in the current Request for Proposals.

All proposals must be submitted in accordance with the instructions detailed in the [RFP](#).

Auditing Accounting Estimates and Fair Value Measurements

Auditors face many challenges when auditing more complex accounting estimates and fair value measurements. PCAOB inspection reports have highlighted numerous deficiencies in this area, such as a lack of consistent application of professional skepticism including insufficient consideration of contradictory evidence when auditing areas that involve significant judgments; inappropriate levels of supervision/reliance on specialists (both inside and outside audit firms); insufficient evaluations of the reasonableness of certain assumptions; insufficient testing of certain inputs used in the determination of significant estimates in the face of contradictory evidence; and insufficient testing of estimates with fair value measurements. The CAQ is interested in research that addresses these areas.

Audit Committee and Board Effectiveness

The CAQ is interested in research that will add to the current understanding of the responsibilities, best practices, characteristics, policies, and structure of effective audit committees. Also of interest is audit committee oversight of the adequacy and effectiveness of corporate disclosures, and consideration of the materiality and timeliness of the information being disclosed.

Audit Implications of New Accounting Standards

New accounting standards impact a wide range of stakeholders – financial statement preparers, audit committees, internal auditors, external auditors, as well as investors and other users of financial statements. In 2018 the revenue standard became effective. In 2019 companies will be addressing the new leasing standard. In 2020 Current Expected Credit Losses (CECL) will come into effect in the US. At the [2018 CAQ Symposium](#), there was a panel discussion that addressed the challenges that companies and auditors faced in the implementation of the new revenue standard. Topics addressed included company readiness, the role of audit committees, implications for systems and ICFR, and auditor assessment of the impact of the new standard on the company and its disclosures.

Auditor Risk Assessment

Auditors identify and assess the risks of material misstatement in the financial statements as part of the audit planning phase, and then continually reassess risk throughout the course of the engagement. Risk assessment is the process of synthesizing that information to identify risks of material misstatement that are relevant to the audit and assessing the

inherent risk of those risks in order to design an appropriate audit response. PCAOB standards require that the auditor consider a variety of sources of information to obtain an understanding of the entity, its processes, account balances, classes of transactions, disclosures, etc. At the [Ninth Annual CAQ Symposium](#) held in 2017 one of the panels focused on the Challenges and Opportunities of Auditor Risk Assessment.

Audits of Internal Control over Financial Reporting (ICFR)

Though there have been many improvements in ICFR reporting, it continues to pose challenges for preparers and auditors. The CAQ is interested in research on the relationship between reported ICFR deficiencies and measures of the quality of financial statements, such as restatements, numeric and non-numeric disclosure quality measures, and measures of disclosure timeliness, etc. On a company-level basis, research around the material weakness decision process (including forecasting the magnitude of errors that could exist) is extremely relevant to both regulators and practitioners.

Cybersecurity

Cybersecurity has immense scale and challenges every sector of our economy. The auditing profession is in a strong position to play an important role in fostering instructive conversations about cybersecurity risk management. The profession can bring to bear its core value – including independence, objectivity, and skepticism – as well as its deep expertise in providing independent evaluations in a variety of contexts. The CAQ is interested in research that will illustrate the current auditor involvement in cybersecurity by evaluating the impact of cybersecurity breaches on the financial statement audit, specifically the internal control opinion. Additionally, it would be informative to see how a company's description of their risk factors in filings with the Securities and Exchange Commission related to cybersecurity are impacted after there is a breach.

Data Analytics

Audit firms are making major investments in technologies that will facilitate the use of advanced data analytics in the audit of financial statements. The integration of data analytics into firm audit methodologies is still in the early stages as the firms explore (i) how best to capture the data; (ii) how such data can influence scoping and risk assessment decisions; and (iii) how such data can be used in providing substantive assurance to the auditor. Suggested areas for research include (i) the potential role and uses of data visualization tools; (ii) the introduction and integration of data analytics into the classroom; (iii) how that integration could promote the development of critical thinking and professional skepticism; and (iv) thought leadership on the definition of data analytics and how data analytics works within the context of existing auditing standards. Research questions in this area could benefit greatly from a multidisciplinary academic team which may have the potential to generate more “out of the box” thinking.

Fraudulent Financial Reporting

Fraud that involves financial statements and/or financial disclosures (i.e. financial reporting fraud) continues to be an area of key importance to the CAQ and its [Anti-Fraud Collaboration](#). Broad areas of interest for academic research include understanding the

conditions that contribute to financial reporting fraud and assessing related risks; 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.

Group Audits

Today's audits often involve component teams of auditors. The CAQ is interested in research related to how the lead (or "group") auditor can best ensure audit quality in a multi-location audit. Examples of questions that arise include those that revolve around the most effective means of communicating when faced with cultural and language barriers; systems of quality control across a global network firm; the risk from an increase in division of auditor responsibility; and the presence and relevance of shared service centers. Other questions exist related to the impact on audit quality of different approaches to audit methodology, audit team structure and project management in multi-location audits.

Materiality

The determination of materiality is important to the conduct of an audit. Not only does it provide a framework to address uncorrected errors, but it also is the foundation from which audit scope decisions are made. There have been survey pieces relative to firms' materiality policies and technical event studies attempting to correlate the magnitude of earnings' surprises to stock price performance; however, there does not appear to be extensive research on other quantitative measures such as EBITDA, operating cash flows, etc. – all of which are often discussed in analysts' calls.

New Auditors' Reporting Model (Critical Audit Matters (CAMs))

The PCAOB recently issued its standard on the auditors' reporting model. The model includes the requirement that critical audit matters (CAMs) be highlighted in the auditors' report. There are a host of questions that will need to be answered relative to the selection, disclosure and information content of CAMs, including the usefulness and limitations of such disclosures. To illustrate, from a behavioral research perspective, it may be of interest to understand what influences an auditor's selection of CAMs. From an archival research perspective – in the short run – there may be interest in how CAMs in the United States differ from key audit matters (KAMs) in the United Kingdom. In addition, assessing the impact of CAMs or potential CAMs on a company's own disclosures may be insightful. From a quantitative perspective, it may be instructive to understand market reaction to the presence or absence of certain CAMs. These are just a few examples of the potential lines of research.

New Corporate Disclosures and New Media

The use of social media and other new technologies has led to the production of more information about companies, quicker dissemination of that information, new ways to access, evaluate, and trade on that information. In addition, the production and transmission of that information involves different individuals inside and outside of the company. Examples of new channels controlled by individuals *inside* the company include conference calls, investor meetings, private calls, company websites, and Twitter feeds. Examples of new channels controlled by individuals *outside* the entity include electronic

forums, blogs, and consumer and employee sites. The CAQ is interested in research that addresses the usefulness and limitations of these sources from an audit perspective, including how these new information sources can be relevant to audit risk assessment and audit planning and whether they may provide new sources of reliable audit evidence.

Non-GAAP Measures

Non-GAAP measures are frequently used by companies to explain financial performance and company results. Use of non-GAAP measures are permitted when complying with certain SEC regulations. Regulators have expressed concern about inappropriate use of such measures. The CAQ is interested in research that will add to the current understanding of the use of non-GAAP measures: whether non-GAAP measures are beneficial to investors; the historical trends in the use of non-GAAP measures; the common areas of abuse or potential abuse of non-GAAP measures; and the role the auditor might have in review of non-GAAP measures. The CAQ's Anti-Fraud Collaboration held a webcast in July 2018, *Non-GAAP Measures – What Do They Say About Fraud Risk*, in which a panel of experts explored the potential implications for fraud risk when it comes to the use of financial measures presented outside the audited financial statements that do not conform to US GAAP.

Professional Skepticism

Professional skepticism is a fundamental element underlying the effectiveness of the external audit. Audit firms continue to seek ways to foster the proper application of professional skepticism in practice. The CAQ is interested in research on the antecedents to and fostering of the proper application of professional skepticism that has the potential to make a meaningful contribution to the extant research. This topic has also been mentioned under the accounting estimates and data analytics headings above, but professional skepticism applies well beyond those areas.

Value of the Audit

Another area of on-going CAQ 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).