



# RAB Request for Proposals

## Topics of Interest in 2021

**Deadline: Monday,  
March 15, 2021;  
11:59 pm PDT**

The CAQ's Research Advisory Board (RAB) 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 \(RFP\)](#).

**All proposals must be submitted in accordance with the instructions detailed in the RFP .**

### KEY TOPICS OF INTEREST FOR 2021

#### Multinational Group Audits

Today's audits often involve global teams of auditors, dispersed across numerous jurisdictions. At [CAQ Symposium 2020](#) a panel discussed several key challenges inherent in group audits. These challenges are reflected in the numerous judgments that auditors make in planning a group audit, such as determining which entities are in scope, identifying significant components and setting component materiality, risk assessments of the component, and determining the nature, timing and extent of workpaper review. The group auditor also determines the division of audit responsibility between the group auditor and the component auditor, the scope of the work assigned to the component, the level of the group auditor's involvement in the audit of each component, and the level of supervision based on the significance and the risk of the component. The panel also addressed issues such as supervision and review of the component auditors, and discussed the impact the COVID-19 pandemic has had on the manner in which group audit teams assess fraud risks and execute audit procedures in response to those risks.

The CAQ is interested in research related to various facets of group audits including how lead auditors can best ensure audit quality in a multi-location audit; factors that are considered in risk assessment of the components and how the use of technology affects the manner in which auditors assess and respond to risks; and communication, documentation and workpaper reviews between the group and the component auditors. Symposium attendees also raised other potential areas of research in the [smaller breakout session](#). These included the influence of technology on component auditor behavior; factors that motivate component auditors to behave as expected by the group auditor; what can be learned from information provided on the PCAOB's Form AP.

#### Firms' System of Quality Control

At [CAQ Symposium 2020](#), a panel discussed some of the key components of the processes and procedures that firms implement to obtain reasonable assurance that their audit teams have complied with applicable professional standards as well as the firms' own standards

of quality. The IAASB and PCAOB have taken strides towards revising the current quality control standards. Firms currently monitor the quality of audits performed, and conduct root cause analyses to identify and remediate areas considered to be deficient. The CAQ is interested in research that can help to inform what types of remedial actions might work to change behaviors and improve audit quality. The [highlights from the CAQ Symposium 2020 breakout sessions](#) provide several other areas for research, such as identifying what behaviors threaten audit quality; what motivates people to attain a positive outcome and could it be applied in an audit setting; and investors' views on information provided by firms in their audit quality reports.

### **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. At [CAQ Symposium 2020](#), there was a panel session that presented key findings from a CAQ-FEI commissioned research study on ICFR management review controls (MRCs). The panelists also discussed suggested actions that preparers, auditors, and regulators might consider to mitigate some of the challenges that many preparers and auditors continue to experience. A report based on this independent research will be published in late 2020. The CAQ and FEI will hold a roundtable in December 2020 and plan to publish highlights of those discussions in early 2021. The findings from this research and the roundtable may provide insight into areas that can further address the issues raised by preparers and auditors with respect to MRCs.

The CAQ is also 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.

### **Auditing in a Virtual Environment**

With the onset of the COVID-19 pandemic in Spring 2020, many employees in the U.S. quickly shifted to

a virtual work environment. Audit engagement teams also started to work from home, conducting audits remotely. The CAQ is interested in how the change to a virtual work environment impacts financial reporting and audit quality. Areas of interest include potential changes in audit procedures, risk assessments, communication within the engagement team and with clients, and exercise of the appropriate level of professional skepticism. At the AAA Annual Meeting, the CAQ organized a panel on the [Impact of Covid-19 on Accounting and Auditing Matters](#) which addressed several key issues, including financial reporting challenges such as valuations, cash flow projections, going concern assessments, and disclosures.

### **Corporate Disclosures over Non-Financial Information**

Companies are increasingly providing information on environmental, social, and governance (ESG) practices so as to provide transparency on how they are addressing climate change, social and governance issues. Investors are recognizing that ESG issues can have an influence on the risk-return profile of their portfolios. The CAQ is interested in research that describes the preponderance of ESG reports; how companies are choosing to report this information (e.g., in separate ESG reports; in their annual report; on an investor relations ESG page on the company website.); the number and type of ESG issues reported; the reporting framework used; and whether the information reported is attested to by a third-party. The CAQ is also interested in how companies are disclosing their risk assessment with respect to cybersecurity.

## **TOPICS OF CONTINUED INTEREST**

### **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. In July, 2018, the CAQ's Anti-Fraud Collaboration held a webcast, [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.

### Critical Audit Matters (CAMs)

Beginning with the audits of large accelerated filers with fiscal years ending on or after June 30, 2019, the auditor must include in the auditor's report disclosure of critical audit matters (CAMs). The applicable Public Company Accounting Oversight Board (PCAOB) standard defines a CAM as the following: any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee, and that (1) relates to accounts or disclosures that are material to the financial statements, and; (2) involved especially challenging, subjective, or complex auditor judgment. In December 2018, the CAQ published a report, [Critical Audit Matters: Lessons Learned, Questions to Consider, and an Illustrative Example](#), which highlights the results of the processes that the CAQ Governing Board firms used to conduct "dry runs" in advance of implementation of the new standard. The [2019 CAQ Symposium](#) included panels that provided insights into the "dry runs" for the new auditor's reporting model as well as issues that firms consider when assessing the impact that a proposed auditing standards will have on audit methodologies and enablement. These panels, as well as the [highlights from the smaller group breakout sessions](#), include issues that can be informed by scholarly academic research. Additional information on auditor reporting issues can be found on the CAQ's [Auditor Reporting resources page](#).

### Innovative Technologies Used in the Audit

The integration of innovative technologies in the audit continues to evolve. Data analytics, data visualization, artificial intelligence, and robotic process automation are just some of the tools being used in audits of public companies. Many are still in their nascent stage. Suggested areas for research include the potential role and uses

of data visualization tools; how the integration of these various tools can enhance critical thinking and professional skepticism; thought leadership on the definition of data analytics and how data analytics works within the context of existing auditing standards; and the introduction and integration of data analytics into the classroom. Research questions in this area could benefit greatly from a multidisciplinary academic team to potentially generate more "out of the box" thinking.

### 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.

### 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.

### 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 and has produced a series of [resources on fair value accounting](#).

### **Auditor Risk Assessment**

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 factors 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.

### **Fraudulent Financial Reporting**

Financial statement 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.

### **Effectiveness of Boards and Audit Committees**

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. The CAQ has a wide range of resources [on policy developments related to audit committees](#).