Highlights from Breakout Discussions

During the second virtual CAQ Symposium, guests from academia and senior practice leaders from the CAQ's eight Governing Board firms were put into small groups and assigned a set of questions based on the four panel sessions that took place during the two-day event. Regulators from the PCAOB, the SEC, and FASB participated in five of the eight groups. The following summary provides highlights from those discussions. The highlights do not necessarily represent the views of any specific individual, regulator, firm, or CAQ Governing Board member.

ESG REPORTING

Along with the growing interest in sustainable investments, the demand for information about companies' environmental, social, and governance (ESG) activities and policies has increased. ESG disclosures provide information that investors and other stakeholders can use to, among other things, assess a company's long-term value creation strategy and risk exposures.

The breakout sessions covered a wide range of topics related to ESG reporting, including the future of ESG disclosures, challenges faced by company management regarding ESG disclosures, and assurance of those disclosures. Participants also discussed enforcement of potentially mandated ESG disclosures and potential areas of academic research.

Future of ESG reporting

Trends suggest that, in the US, disclosures on a company's ESG activities will expand, though broad expansion may be slow because ESG reporting is relatively new. One practitioner said companies will be looking at their competitors' disclosures as they determine what ESG measures to disclose. The types of disclosures will vary by industry. According to another practitioner, various stakeholders interested in ESG disclosures have not come to a consensus on what constitutes a good, objective ESG measure. However, several participants acknowledged that Europe is ahead of the US in terms of reporting and may soon have clearer requirements compared to the US.

Many participants commented that the future of ESG reporting will entail an agreement on an ESG disclosure standard. The *completeness assertion* (meaning comprehensive disclosure that takes into account both positive and negative ESG disclosures) will be important to apply with respect to these disclosures. At this point, companies' ESG disclosures seem to be selective: most companies tend to report on ESG disclosures that shine a positive light on their ESG activities. In terms of creating an ESG disclosure standard, consistency will be important, but at the same time the standard will need to be broad and principles-based or industry-specific.

Academics noted that the ESG disclosure framework should be consistent across jurisdictions but recognize that local regulators should be have the flexibility to tailor the framework to their needs. Practitioners underscored the need for some variation across jurisdictions, noting that some regulators have an investor-focused perspective (e.g., US) while others take a broader, multi-stakeholder focus (e.g., many countries in the EU).

Participants also discussed the scope of ESG regulatory reporting requirements and how investor demand continues to expand that scope. Some regulators commented that the demand for comparability and consistency in ESG disclosures suggests that standards should be made and enforced. However, it remains uncertain who should set these standards and who should verify that these standards have been met.

Some practitioners believe that stakeholder interests may influence which disclosures will be mandatory and which will be voluntary. Other practitioners believe that ESG disclosures will grow in importance but that future disclosures could become boilerplate if mandated. Moreover, one regulator noted that if these disclosures evolve into boilerplate, they will provide little information to users, particularly to investors.

ESG disclosure challenges

Different stakeholder groups may deem different ESG topics to be potentially material or of particular interest. Therefore, selecting topics that warrant disclosures is one of the bigger challenges companies face regarding ESG reporting. According to one practitioner, an ESG measure has varying levels of importance—what is important to any one company's stakeholders can vary widely depending on the company's industry, size, and complexity. Practitioners said that the challenge is to figure out which ESG factors are most impactful to the company based on its existing strategy and the stakeholders of focus. One academic stated that the reliability of an ESG measure should play a role in the selection process, whereby more reliable measures should be favored over less reliable ones. The academic also indicated that well-chosen factors should not only address stakeholders' needs but also result in actions taken by the company to increase profitability.

There may be an inherent difficulty in quantifying the costs and benefits of the decision to disclose certain information about a company's ESG activities that may have longer-term consequences. A regulator mentioned that ESG reporting is a balancing act on how much detail a company can provide without harming its competitive position while still providing useful information to those who are trying to value the company. A practitioner stated that it may be difficult for companies to determine whether an ESG-motivated action will maximize shareholder value.

Many ESG initiatives have qualitative aspects that are difficult to measure. Thus, as one practitioner indicated, a company's disclosure on how it measures these initiatives can be a challenge. Academics suggested that it may be challenging to provide assurance around a company's qualitative statements.

Academics noted that there is an expectation gap between investors who want a high degree of credibility from ESG information and companies that simply do not currently have high-quality data or systems in place to ensure the quality of that information. Regulators and practitioners conveyed that the cost to implement processes and controls over ESG reporting could be significant.

Assurance of ESG disclosures

Most breakout groups discussed various issues related to assurance of ESG disclosures, including a company's decision to engage an assurance provider, the selectiveness about which disclosures get assured, and the shortfalls that limit auditors from providing assurance. A practitioner raised the point that a company's budget, time, and resources all play a critical role in its decision to engage an engineering firm or an audit firm as the preferred assurance provider. A key consideration is the cost that the company is willing to spend on the assurance. Participants from one breakout group agreed that the opportunity to provide assurance over ESG disclosures should grow as they become more prevalent and subject to regulation. While it is not clear whether or when assurance will be mandated, participants agreed that auditors' liability exposure should be carefully considered.

Currently, those companies that seek assurance on their ESG disclosures are selective about which disclosures they have assured. An academic posited that companies want to share only the information that they believe will be perceived as an advantage relative to the competition. The example used by the academic is that it's one thing to measure the diversity of an employee base, but it's another thing to try to understand how inclusive the culture actually is. Yet, based on some practitioner views, proving that these initiatives lead to significant improvement is going to be challenging.

The audit profession has largely based its work on financial quantitative measures, but ESG introduces the need for non-traditional financial quantitative measures as well as qualitative measures. Practitioners commented that companies need to create and implement processes and procedures before assurance can be provided over them. While practitioners noted that some audit firms may not be ready to provide assurance on ESG disclosures, it was also noted that audit firms can hire specialists or bring in their in-house ESG expertise.

Enforcement of potentially mandated ESG disclosures

Participants discussed whether, if currently nonmandated ESG disclosures become mandated, there should be regulatory enforcement over those disclosures. Many participants believe that some level of enforcement over those disclosures will naturally follow if companies disclose misleading or inaccurate ESG-related information. One regulator said that it is better to not reinvent the wheel when systems are already in place that can be utilized in a cost-effective way.

One academic stated the need for a framework and understanding to ensure the enforcement makes sense given that ESG is associated with both the company and industry (more so than financial reporting). One practitioner would like to see an evolutionary process applied to ESG disclosures as follows: once standards are set up, give some time to start reporting without assurance, and then once assurance is built in, give some time before enforcement.

Notably, companies could be subject to enforcement action even for ESG disclosures that are not mandated. ESG disclosures in SEC filings or other public disclosures, if untrue, incomplete, or misleading, may subject companies and potentially practitioners to significant liability under federal securities laws.

Potential areas of academic research

Participants discussed potential opportunities for academic research in the area of ESG reporting. Some discussions focused on how research could help the profession by addressing the issue of materiality in the ESG domain and gaining deeper insights into which ESG metrics are important or impactful to investors. An academic suggested conducting research that examines how stakeholders respond to ESG information, its influence on the cost of capital, and the impact of assurance over the information. Another suggestion was to examine how characteristics of the ESG disclosures are evolving over time. A regulator indicated that, from a regulatory perspective, it would be important to get cost-benefit data on the additional assurance of ESG disclosures, principally relating to how the investor is being viewed to support or pay for the additional assurance.

Other research questions that participants thought could provide further insights regarding ESG reporting were as follows:

+ What are the best practices for companies on how to share ESG information with users?
+ How should ESG metrics tie into company performance?
+ Should ESG reporting follow an integrated or isolated approach?
+ What ESG-related disclosure items are most likely getting assurance and at what level?
+ What is the cost of the assurance versus the benefit to the market?
+ What learnings can be gained from other jurisdictions (e.g., EU and the UK)?

THE FUTURE OF THE AUDIT WORKFORCE

The breakout sessions covered a range of topics related to the future of the audit workforce, including challenges with respect to audit procedures and oversight of the team brought by the virtual environment, effective tools or resources for maintaining social connectivity, approaches to online learning, and potential areas of academic research.

Supervision and oversight of engagement teams

The COVID-19 pandemic forced audit firms to move to the remote work environment, which introduced many challenges on how best to provide supervision and oversight of engagement team members. It was particularly a challenge to supervise less experienced team members, especially first-year staff, since they often did not know who to turn to with their questions. In the physical audit room it is easier to raise questions and discuss audit issues, but in the virtual environment some staff were reluctant to interrupt an audit senior or manager for fear of making a bad impression. To address these challenges, audit seniors and managers had to be more deliberate with outreach to provide adequate remote supervision and on-the-job training that otherwise would have occurred on-site. Allotting time for these discussions required more organization because conversations did not happen fluidly, as in the past.

A key on-the-job training opportunity that was missed in the remote environment was the ability for the audit team to overhear the partner during conversations he or she had with the client and get an understanding of how those discussions relate to the audit. Partners needed to be more intentional about sharing this type of information with the team.

Participants expressed concern with the professional development of new hires (i.e., interns or first- and second-year auditors). One practitioner commented that it is more challenging for new hires to develop the soft skills they learn on the job when they cannot observe interactions that seniors and managers have with the client and other members of the engagement team. Under the apprenticeship model, early career professionals learn by shadowing more experienced staff, having the opportunity to ask questions about what they are observing. They also develop mentorship relationships that build trust. Various practitioners commented that, in the remote work environment, it is a challenge to replicate these activities.

Many of the challenges faced by practitioners overlap with those faced by the academics. A primary issue was the frequency of contact and the lack of physical interaction. Participants indicated that infrequent contact may hinder the ability to develop mutual trust and that a lack of in-person interaction highlighted how important relationships are to the profession. Several practitioners noted that decreased engagement with team members may be a factor in not creating loyalty to the firm, resulting in high attrition. Other issues practitioners mentioned included managing team dynamics, developing soft skills, finding an opportunity to provide one-on-one coaching, sharing objectives, building relationships with clients, and teaching professional skepticism.

Academics agreed that addressing the challenges brought by the virtual environment forced them to be more available to their students, similar to how audit managers needed to be more available to their staff. Increased availability often comes at the expense of the professor's (or the manager's) personal time. However, both academics and practitioners felt that increased availability is something they would continue to make time for in the future.

Although the pandemic introduced many challenges, some academics and practitioners agreed that it also brought some positive changes. For instance, prior to COVID-19, many individuals did not participate in virtual meetings as they do now, even though the technology was available. The pandemic also forced individuals to be more innovative, thoughtful, and intentional. Participants acknowledged that success in this new environment requires more self-discipline and an increased ability to focus. Participants mentioned that those auditors who were “self-starters” did well, but other personality types tended not to do as well.

Audit procedures

The virtual environment posed challenges for obtaining audit evidence, particularly for those audit procedures for which physical presence provides a higher quality of evidence, such as with inventory. When audit teams and client staff are on-site, the auditor can physically see the inventory. Teams adjusted by performing virtual inventories in which a member of the client team videoed the inventory while the auditor observed a live feed of the video. Some internal control testing proved to be a challenge in the remote environment, and auditors had to adjust to performing these audit tasks over video. More than one practitioner said there were some notable improvements to the quality of audits performed in the virtual environment since engagement teams were able to confer with personnel – including partners and specialists – from other local offices when needed. This provided teams the opportunity to tap into expertise that might not otherwise have been possible if it was necessary to travel to the client site.

The practitioners mentioned that fraud inquiries, walkthroughs, management review controls, and auditing complex estimates were aspects of the audit that were more difficult to execute virtually. Some practitioners were concerned that they were not getting truthful answers from clients via remote mediums; they also noted that getting clients to attend video meetings was sometimes difficult. Finally, practitioners said it is challenging to pick up on nonverbal cues, such as body language, when conducting interviews over video.

Comments from several practitioners suggested that audit firms maybe moving into a hybrid environment at least over the next several years. Audit firms may have to consider client preferences regarding virtual versus in-person work environments; another factor to take into consideration is audit team members’ preferences with respect to travel and working at client sites, as they have become accustomed to a certain amount of flexibility.

Effective tools or resources for maintaining social connectivity

As indicated above, social connectivity in a virtual environment as a result of the pandemic presented a challenge. When asked what tools or resources were effective in replicating the in-person experience, practitioners responded that scheduling monthly virtual team-building events provided an opportunity for staff to get to know one another in ways that would not have otherwise been possible. Furthermore, these virtual events enabled greater participation from various offices since virtual events do not require travel. There was a common sentiment among some practitioners that virtual happy hours were losing their appeal as an effective method to connect. One regulator mentioned the use of the Remo platform, an online interactive events platform that creates a virtual setting that allows for fluid mingling like one would have at dinner or at a cocktail party. Practitioners noted that increasing digitization allows firms to tap into expertise in a broader geographical region.

Regarding the frequency of contacts, academics agreed that one effective approach to increase engagement was to break down assignments into smaller tasks and to have students submit assignments more regularly, which also meant receiving more frequent feedback. Some of the approaches adopted by academics included recording welcome and introduction videos, giving out their personal cell phone number to students, and allowing students to get to know them on a more personal level. Academics also noted that students seemed to feel more comfortable coming to office hours over Zoom.

With respect to what educators should be teaching this new generation of auditors, practitioners suggested (1) helping students take a broader worldview so they are able to make sophisticated connections and understand the bigger collective picture, and (2) teaching project and time management—helping students learn how to balance competing demands while not becoming mentally fatigued.

In-person versus online learning

When pivoting from in-person to online learning, various approaches were implemented by academics and audit firms. Academics used the chat function on the virtual platform to engage in discussion forums, and firms developed shorter versions of training modules. In one breakout group, participants voiced unanimous agreement that a hybrid approach to learning is needed. Comments suggested that the virtual environment is ideal for technical trainings, while the in-person environment is ideal for building soft skills, relationships, strategic thinking, leadership, and firm culture. However, in another breakout group, the general consensus among participants was that in-person classes and in-person auditing are still superior to the virtual environment.

Academics agreed that there is a big difference between synchronous and asynchronous online learning, as these approaches create different types of student accountability. One academic stated that her class was a hybrid synchronous/asynchronous class similar to hybrid auditing, where the audit team is in a room and auditors work both together and individually. Furthermore, as many institutions implemented a pass/fail model for students as a result of the pandemic, one practitioner expressed concern regarding students' ability to succeed in a profession that was not built on that model.

Potential areas of academic research

Participants discussed potential opportunities for academic research in the area of the future audit workforce. Some suggestions revolved around how to assess student or employee learning and ethical behavior. Practitioners offered several research questions of interest:

+ How should the profession adapt the apprenticeship model in a virtual environment?
+ How should practitioners determine which activities are more efficiently and effectively performed in person versus those activities that would be better performed remotely, in a post-COVID hybrid model?
+ How should firms balance the significant cost reductions experienced due to travel cuts and the social benefits felt by employees when they receive in-person trainings?

Other areas of examination raised by participants related to the future audit workforce include the following:

+ Attractiveness of the accounting profession to students
+ Equipping students with the soft skills they need in practice
+ Impact of virtual or hybrid procedures on audit quality
+ Enhancing professional skepticism in a virtual or hybrid work environment