



The Center for Audit Quality Institutional Investor Survey

Research Findings | Q1 Survey

February 2024

About KRC Research

KRC Research is a global opinion research and insights consultancy that specializes in designing research to support effective public affairs, advocacy, engagement and communications initiatives. For over 30 years, we have helped nonprofits, governments, and corporations execute on their strategic imperatives and meet their organizational goals.

Our team draws from the worlds of global health, consumer and social marketing, journalism and academia, and public policy arenas. Not only are we passionate about the work we do for clients, but we also pride ourselves on being flexible, practical, creative, and knowledgeable, combining sophisticated research tools with real-world intelligence and communications experience.

We understand the needs and challenges of diverse target audiences and complex objectives. This breadth of experience and depth of knowledge positions KRC to deliver the highest quality insights needed to inform your organization's most pressing strategic decisions.

About the Center for Audit Quality

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

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Objectives & Methodology

OBJECTIVES

Understanding how consumers perceive and utilize financial and non-financial corporate information is crucial for promoting transparency, trust, and stability in financial markets. To address this, the Center for Audit Quality (CAQ) is engaging investors to understand their attitudes on assurance and corporate reporting issues specific to U.S. capital markets.

To reach a broad range of institutional investors, the CAQ has partnered with KRC Research, a global public opinion research consultancy, to conduct independent quantitative and qualitative field work involving a diverse group of investor community stakeholders. Two reports released in 2023 offered qualitative insights into institutional investors' beliefs, concerns, and expectations regarding corporate reporting in the U.S.

Throughout 2024, KRC Research will conduct quarterly quantitative surveys on topics of interest to investors based on previous research findings. This resource presents results from KRC's Q1 2024 survey, focusing on noncompliance and fraud.

METHODOLOGY

The Q1 survey research was conducted online from January 29-31, 2024 among 104 institutional investors.

Qualified respondents were screened to ensure they are professional investors employed at companies with a minimum of \$500M in assets under management, are in decision-making positions, and manage U.S.-focused portfolios. Detailed information of survey respondents can be found in the appendix.

RELATED RESOURCES

- + [Views on Public Company Auditors: Audit Committee Member and Institutional Investor Research Findings, CAQ \(May 2023\)](#)
- + [Perspectives on Corporate Reporting, the Audit, and Regulatory Environment: Institutional Investor Research Findings, CAQ \(November 2023\)](#)

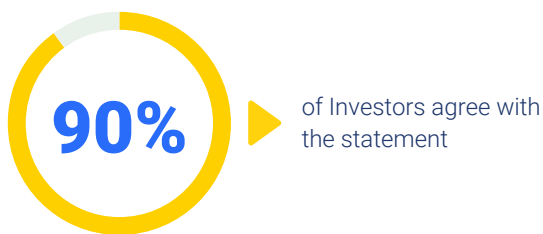
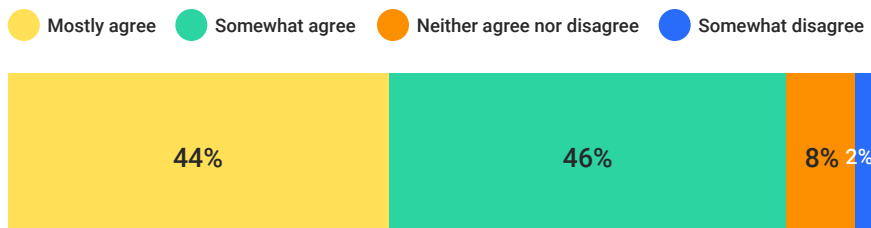
Email hello@thecaq.org for questions about this publication and its findings.

Survey Findings

Almost all investors agree that risks related to noncompliance and fraud play a role in their assessment of a company.

HOW STRONGLY DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENT?

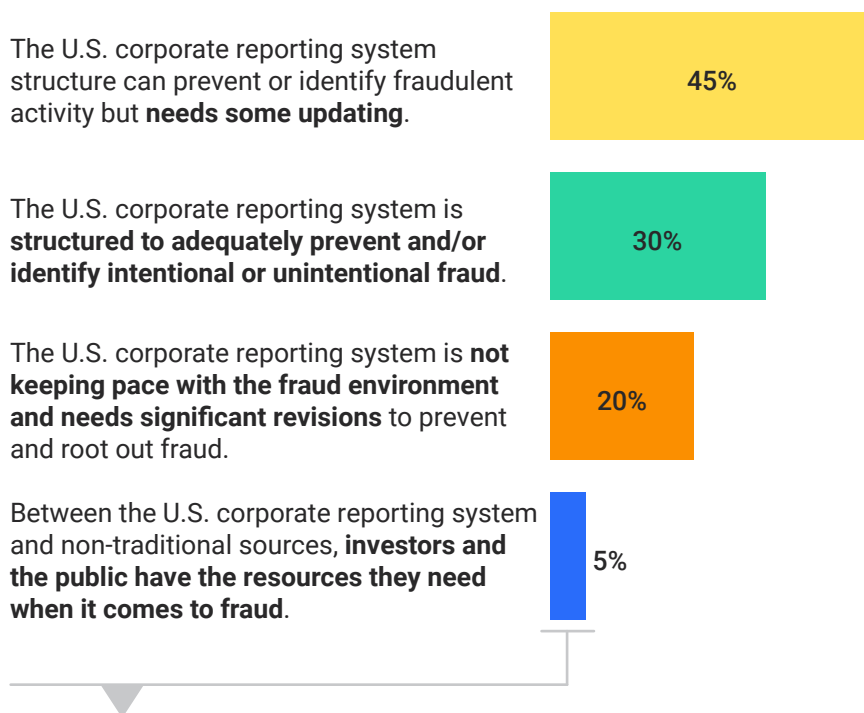
When it comes to recommending or rejecting a public company as an investment opportunity for myself or clients, the **assessed investment risk related to noncompliance with laws and regulations and/or fraud plays an important role in my analysis.**



*No respondents replied with "mostly disagree."
Q17. Please indicate how strongly you agree or disagree with the following statement (Base: All respondents, n=104)

The plurality of investors believe that the U.S. corporate reporting system is effective but could use updating.

CURRENT STATE OF CORPORATE FRAUD AND NONCOMPLIANCE DETECTION/PREVENTION



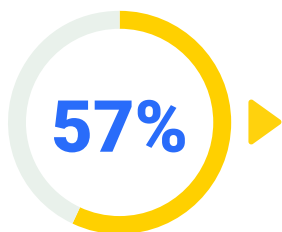
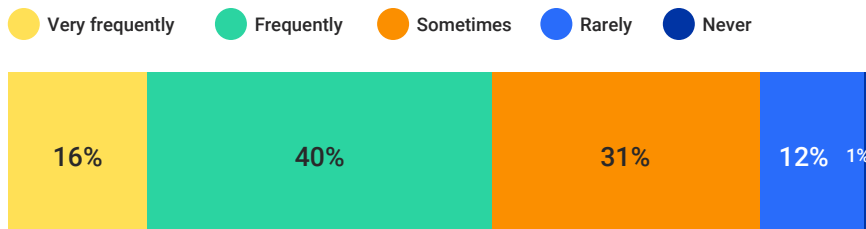
Resources Used

Audited financial statements	4
Legal proceedings	3
Other company prepared information	2
Credit rating agencies	2
Company policies and code of conduct	2
Earnings calls and presentations	1
Traditional media	1
Analyst or short-seller reports	1

Q13. Which of the following statements most accurately aligns with your opinion on the current state of corporate fraud and noncompliance with laws and regulations detection and prevention at public companies in the United States? (Base: All respondents, n=104) / Q14. What are examples of other types of resources you use when addressing fraud risk in your investment analysis for yourself and your clients? Select all that apply. (Base: Respondents who believe they have the resources they need, n=5)

Most investors also believe that company noncompliance frequently goes undetected by the current corporate reporting ecosystem.

PERCEIVED FREQUENCY OF UNDETECTED NONCOMPLIANCE/FRAUD



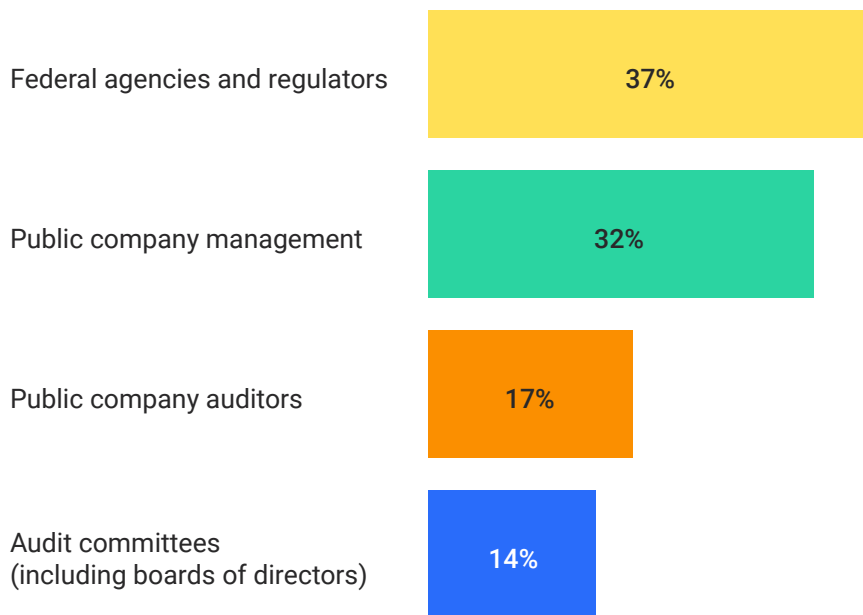
57% of investors say they believe it is frequent that a company's noncompliance (including fraud) goes undetected by stakeholders in the U.S. corporate reporting ecosystem.*

Q15. How frequently do you think a company's noncompliance with laws and regulations, including fraud, goes undetected by stakeholders in the U.S. corporate reporting ecosystem? (Base: All respondents, n=104)

* Difference due to rounding.

Among investors who believe noncompliance is frequent, most say federal entities and public company management could do a better job.

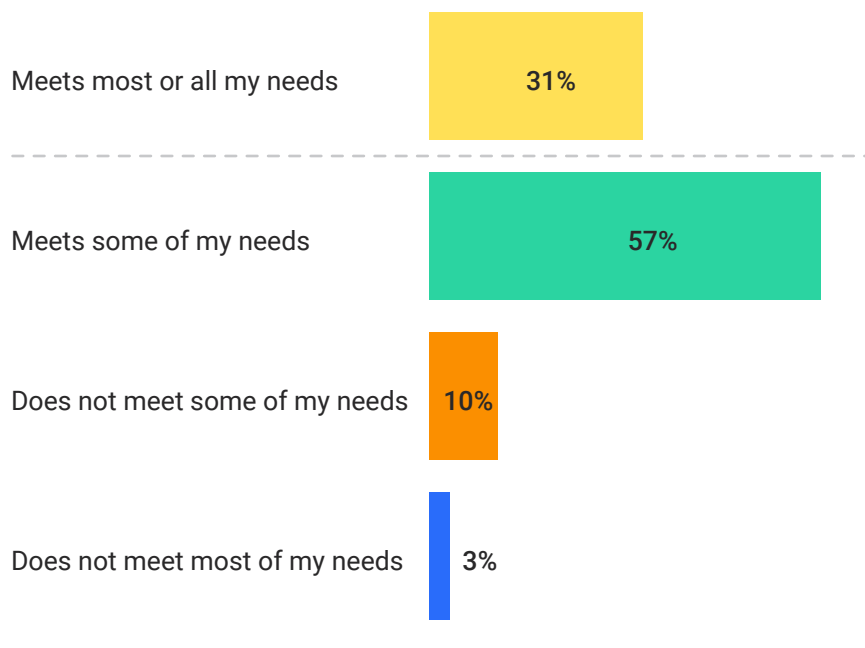
STAKEHOLDERS MOST RESPONSIBLE FOR BETTER DETECTING NONCOMPLIANCE



Q16. Which stakeholder in the U.S. Corporate Reporting ecosystem do you think could do a better job to detect noncompliance with laws and regulations, including fraud? (Base: Investors who say company noncompliance happens frequently, n=59)

Eight in ten say information available on noncompliance meets most or some of their needs, and that some groups could provide more NOCLAR-related disclosures to fill this gap.

STATE OF INFORMATION PRESENTLY AVAILABLE REGARDING DISCLOSURES WITH RESPECT TO NOCLAR



What groups would you like to see more info from to meet your needs? (n=72)

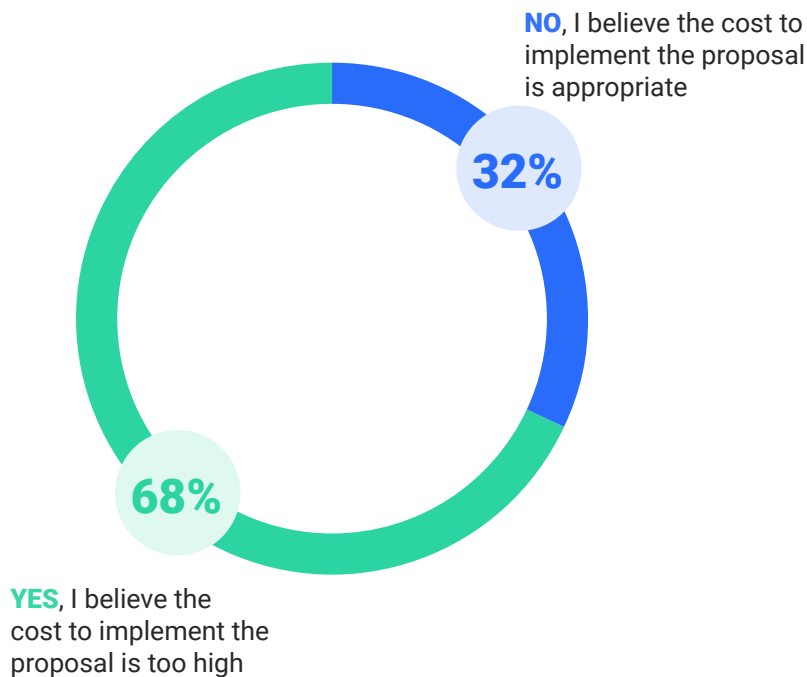
Public company auditors	28%
Company management	26%
Regulators	25%
Federal entities	15%
Audit committees (boards)	6%

Q18. What is your opinion on the present state of information available to you regarding a public company's required disclosures with respect to noncompliance with laws and regulations including fraud? (Base: All respondents, n=104) / Q19. What stakeholder group[s] would you like to see more information from to meet your needs when considering a company's noncompliance including fraud when evaluating an investment? (Base: Respondents who don't have all/most needs met, n=72)

Nearly seven in ten investors believe that the costs associated with the PCAOB NOCLAR proposal reporting requirements are too high to justify the updated rules.

Recognizing that modernizing regulations will have some associated costs, based on what you know right now...

IS YOUR OPINION ON THE PROPOSAL AFFECTED BY THE ESTIMATE THAT IT COULD TRIPLE THE COST THE FINANCIAL STATEMENT AUDIT? (N=104)



INVESTORS WERE PROVIDED THE FOLLOWING INFORMATION:

Regulators in the United States issued a proposed rule to update existing reporting requirements regarding a company's noncompliance with laws and regulations.

Under existing standards, when a company's external auditor becomes aware of a possible illegal act they must obtain an understanding of the nature of the act, the circumstances in which it occurred, and sufficient other information to evaluate the possible illegal act's effect, if any, on the financial statements.

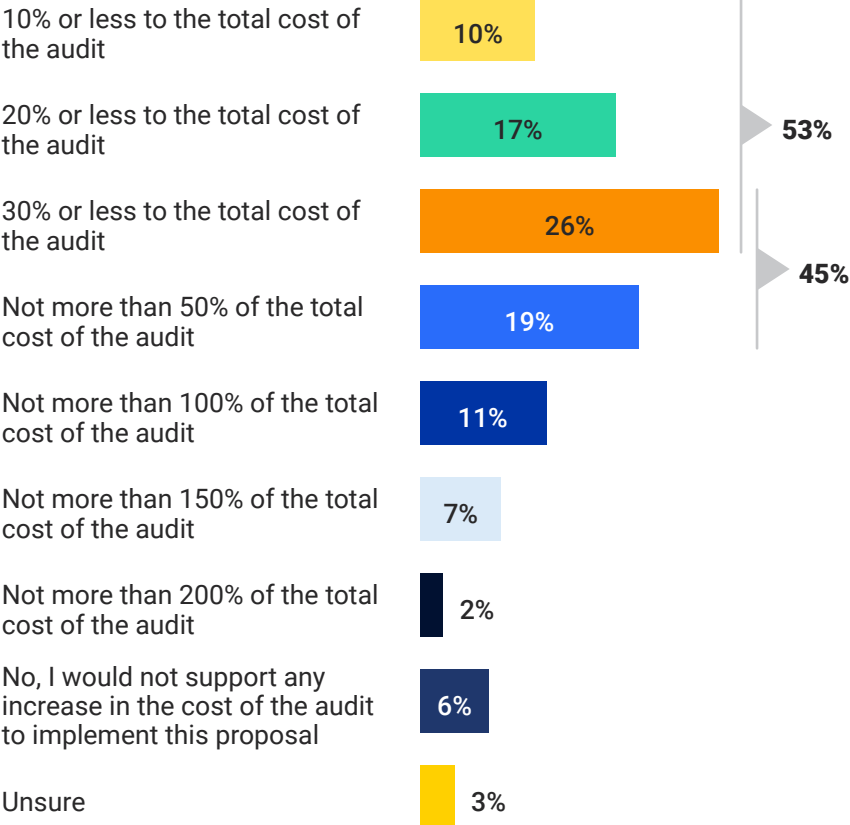
Under the proposed rule to update existing reporting requirements, the external auditor would be required to identify laws and regulations with which noncompliance could reasonably have a direct or indirect material effect on the financial statements. If the external auditor identifies potential noncompliance with a law or regulation it would be required to determine if noncompliance occurred and its effect on the financial statements.

Federal regulators have not performed a cost-analysis of their proposal to update existing reporting requirements regarding a company's noncompliance with laws and regulations. The Chamber of Commerce estimated that the proposal could triple the cost of public company audits, increasing from a current \$18.2 billion (USD) to \$54.6 billion (USD) if implemented as regulators proposed.

Nearly all investors support some audit cost increase to implement NOCLAR. A majority support an increase of no more than 30% over current costs.

AGGREGATE INCREASED AUDIT COSTS THRESHOLD

An increase of...



INVESTORS WERE PROVIDED THE FOLLOWING INFORMATION:

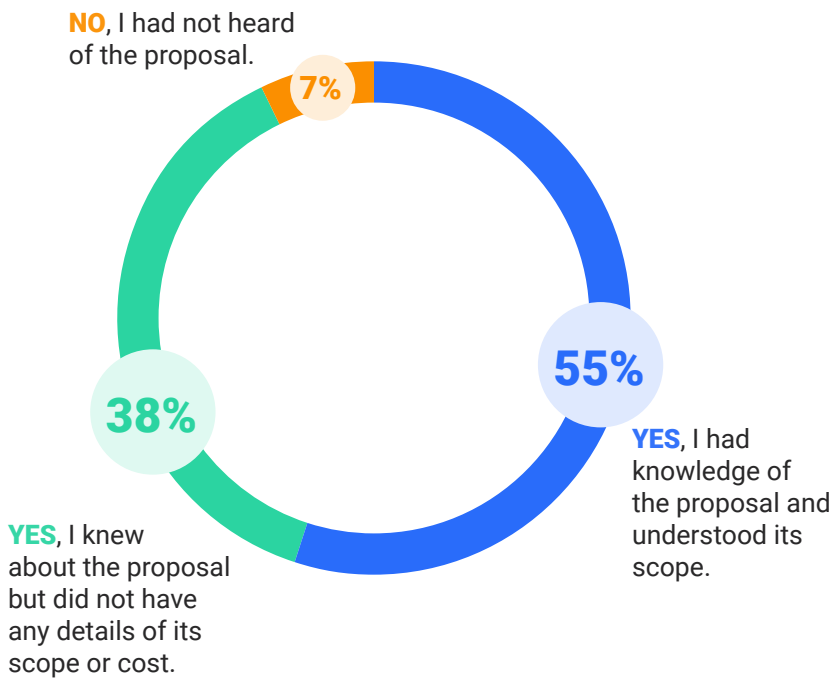
Following is an example of how the cost of an audit could potentially be affected by the Chamber of Commerce estimate that NOCLAR would triple the aggregate costs of audits. A Fortune 100 company that employs approximately 100,000 people with operations in more than 5 dozen countries through the manufacture and distribution of consumer and commercial products related to building materials, office products, and cleaning and medical products spent approximately \$27 million in audit fees. If the Chamber of Commerce aggregate estimate is applied in this scenario, implementing NOCLAR could increase audit fees to \$81 million. This is just an estimate. The actual cost would depend on numerous factors, including the scope and complexity of business operations of the public company being audited.

*No respondents replied with an increase of not more than 250% or 300% of the total cost of the audit. Q21. Regardless of whether you support or oppose expanding the role of the external auditor in detecting and reporting fraud, including noncompliance with laws and regulations, is there an increase in aggregate audit costs you believe is appropriate to balance the costs and benefits? (Base: All respondents, n=104)

Almost all knew about the NOCLAR proposal before taking the survey, but nearly half did not know details or had not heard of the proposal.



KNOWLEDGE OF PCAOB PROPOSAL TO EXPAND EXTERNAL AUDITOR ROLE



Q22. Before taking this survey, did you have any knowledge of the Public Company Accounting Oversight Board proposal to expand the role of the external auditor regarding noncompliance with laws and regulations (NOCLAR)? (Base: All respondents, n=104)

Appendix

Survey Respondent Profile

Gender	
Male	67%
Female	33%

Age	
Under 30 years old	7%
30-39	47%
40-49	31%
50-59	13%
60+	2%

Title	
Vice President	27%
Director	36%
Senior Manager	25%
Manager	13%

Assets Managed	
\$500mil to less than \$1bil	34%
\$1bil to less than \$5bil	32%
\$5bil to less than \$10bil	11%
\$10bil to less than \$50bil	8%
\$50bil or more	16%

Investment Experience	
6 – 10 years	40%
11 – 15 years	28%
16 – 20 years	15%
Over 20 years	16%

Follow Rules & Regs.	
Very closely	63%
Somewhat closely	30%
A little closely	8%

Buy/Sell Side	
Buy side	62%
Sell side	38%

Financial Statement Familiarity	
Very familiar	58%
Somewhat familiar	42%

Company Representation	
Investment Bank	29%
Commercial Bank	29%
Insurance Company	15%
SPAC	6%
Venture Capital Funds	5%
Private Equity Fund	4%
Credit Union	3%
Mutual Funds	3%
Retirement or Pension Fund	2%
Real Estate Investment Trusts	2%
Multi-Employer/Taft Hartley Fund	2%
Hedge Fund	1%

Job Description	
Buy Side	62%
Portfolio Management	33%
Risk Assessment/Management	31%
Individual Investment and/or Securities	28%
Equities and/or Financial Management	8%
Sell Side	38%
Investment Research and Securities	50%
Equities and/or Financial Management	25%
Risk Assessment/Management	25%

Q2. What type of organization/company do you work for? / Q3. Are you a sell side or buy side investor? / Q4 & Q5. Which of the following comes closest to your job title or description? (Total: N=104)



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your feedback!**

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questions to hello@thecaq.org