



Request for Proposals For Academic Research in Auditing

December 1, 2011

Proposal Deadline: March 1, 2012, 5:00 pm EST

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ receives strategic guidance from a 12-person Governing Board that includes three members from outside the profession. The organization is affiliated with the AICPA.

The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions.

The CAQ convenes an Auditing Research Symposium that provides an opportunity for a robust dialogue between the profession and academia on issues facing the profession. At the 2011 CAQ Symposium, one of the panel presentations provided an opportunity to focus attention on the future role of the auditor. Senior practice leaders and academic scholars listened to an interactive presentation. They then engaged in brainstorming sessions designed to further delve into key issues and generate questions for research. The Symposium built upon a series of conversations that the CAQ had convened with a wide variety of financial reporting stakeholder groups – CEOs, CFOs, audit committee members, investors, analysts, former regulators, academics, auditors and others – on several related topics: the value of the audit, the information from the financial reports used by capital market stakeholders, information outside of these reports that stakeholders rely upon, and what role the auditor currently plays vs. what role the profession might play in the future. In October 2011, the CAQ released *Observations on the Evolving Role of the Auditor: A Summary of Stakeholder Conversations*. (The report is available at <http://www.thecaq.org/publications/EvolvingRoleoftheAuditor.pdf>.)

The CAQ is interested in exploring ways to evolve the role of the auditor to meet the needs of investors, and believes that scholarly research can help to inform the debate about possible alternatives. The following are examples of some areas of interest:

- It has been suggested that auditors could provide qualitative observations related to the company's financial statements as a supplement to the current pass/fail auditor's report on such things as management's significant judgments and estimates, critical accounting policies and practices, difficult or contentious issues encountered in performing an audit, where disclosures could be enhanced, etc. If auditors were required to disclose this information, what effect would it have on management practices? On auditor/audit committee communications? What effect would it have on the audit in terms of audit planning and execution? Audit committees are the primary representative of shareholders in discussions with auditors and management about the company's financial reports, so should the audit committee be responsible for communicating this information to investors?

- What information is important to investors and what information, including that which currently has no auditor involvement, do investors use to make investment decisions? How do those needs vary by type of investor? Who do investors think are in the best position to provide that information? If it is determined that the issuer is in the best position, do investors want some level of auditor association, and if so, what level of association? What choices or trade-offs would investors be willing to make to obtain the desired information (e.g., accuracy versus timeliness; increased costs to the company (staff time, auditor time, etc.); willingness to forego some disclosures in favor of others; required framework versus management having the ability to present the information through their own eyes, etc.?)
- Many students go into auditing as a first step in a career in accounting and business. It has been suggested that the prospect of becoming an audit partner is less attractive to young auditors than it was in the past. Issues such as work-life balance, reluctance to move families, increasing complexity of regulations, litigation risk are all cited as contributing factors. How can we measure the concerns that current staff have with respect to the profession? Which factors have the greatest impact on decisions to leave the profession? What effect would potential changes in the auditor's role have on the profession's ability to attract and retain the highest quality talent?

Other topics of interest to the profession include:

- **Fraud Deterrence and Detection** (e.g., the role of corporate management and boards; audit committee effectiveness; assessing tone at the top and corporate culture; the expectations gap; deconstruction and analysis of past frauds that could provide lessons for one or more participants in the financial reporting process; etc.)
- **Professional skepticism/objectivity** (e.g., factors that encourage/discourage professional skepticism; what influences the ability of senior audit team members to be skeptical; what impact the use of specialists has on skepticism; approaches to developing and improving auditor skill set; etc.)
- **Auditability of accounting estimates** (e.g., contingent liabilities, fair value measures, impairments, development stage intangibles, etc.)
- **Audit quality** (e.g., Is the current regulatory model of remediation and enforcement working for maintaining and improving audit quality? What can we learn from a comparative analysis of the effectiveness of the current U.S. model for the auditing profession with regulatory models used in other regulated industries in the U.S. or other countries? Other audit quality issues of interest include output measures, input measures, restatements arising from materiality measures; impact of internal control over financial reporting on the quality of financial reporting; multiple location audit environments and relevance to audit quality; multiple bodies of professional auditing literature and impact on audit quality; effects of different legal regimes; etc.)
- **Value of the audit** (e.g., debt and equity market effects; the value proposition of audited financial statements to users; the view of stakeholders; etc.)
- **Impact of communication and information technologies on the audit** (e.g., the impact of reliance on emails, text messages and other technologies on communications within the audit team, and between audit staff and company personnel; etc.)

Note: The examples included above under each topic are illustrative. The CAQ will consider proposals for research with a domestic or international dimension on any of these topics. Any appropriate research method can be employed.

Instructions for proposal submissions

Proposals must contain the following elements:

- Statement of the Research Question/Problem – proposals should include a description of the general question that the research will address and how the proposed project relates to that question/problem (what parts of the question the project will address). It should also describe how the research will inform practice.
- Theory—Proposals should include a well-developed narrative about the theory behind the proposed research question(s) to be addressed.
- Relationship to Existing Research — How does the proposed project differ from existing research? Explain how the proposed study builds on the extant research on the topic.
- Hypotheses/Specific Research Questions — What specific hypotheses will be tested/questions addressed?
- Method—How will the research be conducted? Proposals should provide a detailed research plan.
- Resource Needs – What resources are required? Proposals should articulate what resources, such as access to profession staff, secondary data sources, other data sources, will be required to complete the study.

While there is no restriction on the number of pages, proposals should be focused. In addition, researchers are strongly encouraged to include an executive summary (no longer than two-pages) that is written for a non-academic audience.

Other required information includes the following:

- Itemized budget including budget rationale. Note that the CAQ requires a waiver of university overhead and does not pay for travel to conferences.
- Detailed timeline with milestones and deliverables.
- Identification of proposed members of the research team (e.g., project director, research assistant, staff scientist, faculty), including a brief description of their role.
- Level of effort (in hours and fees) proposed for each of the research team members.
- Curriculum vitae for the proposed project director and other key members of the research team.
- Other information that the research team believes will assist the review of the proposal.

The number of projects selected for funding will depend on the quality of proposals received and the total dollar amount of funds requested. The CAQ anticipates making available a total of \$200,000 to fund multiple projects during this submission period.

To be considered, proposals should be received by **5:00 pm, Thursday, March 1, 2012**. Please send an electronic copy of your proposal to researchproposals@thecaq.org.

Questions regarding this RFP should be submitted to Margot Cella at researchproposals@thecaq.org.

Proposals will be reviewed by the CAQ's Research Advisory Board. Grants will be announced on or about **May 31, 2012**.