



# IAASB/ICAS/IAAER RESEARCH FUNDING OPPORTUNITY

## INFORMING THE IAASB STANDARD-SETTING PROCESS

The International Association for Accounting Education and Research (IAAER) and The Institute of Chartered Accountants of Scotland (ICAS) are pleased to invite research proposals under the *Informing the IAASB Standard-Setting Process Program*. The program supports research directed at informing the International Auditing and Assurance Standards Board's (IAASB) decision process in relation to future topics to be addressed. Up to four research grants of £20,000 each will be awarded under this program. ICAS provides funding for policy relevant research and is therefore providing the funding for this program, together with the ICAS Foundation (exclusively from the funds of SATER).<sup>1</sup>

### Program objective

The call promotes and supports research directed at developing theory and evidence to inform the IAASB's international standard-setting process. The IAASB sets, independently and under its own authority, high-quality international standards to serve the public interest. The IAASB is committed to the goal of developing a set of robust international standards that are generally accepted worldwide in both the private and public sectors, and facilitating the convergence of international and national standards. The IAASB's objectives contribute to enhanced quality and consistency of practice throughout the world, and strengthened public confidence in the global auditing and assurance profession.

As a result, proposals pertinent to the objectives of the IAASB to develop high-quality international standards for auditing, quality control, review, other assurance and related services, and to facilitate the convergence of international and national standards, are welcome.

The IAASB is particularly interested in proposals addressing:

- The implications of trends and developments in financial and corporate reporting on auditing, other assurance and related services;
- Professional judgment and professional skepticism; and
- Implementation of its international standards, e.g. the new and revised standards on auditor reporting.

A selection of topics of interest within these three broad themes are highlighted below. Please note that this is not intended as an exhaustive list and the questions raised merely serve to provide some background on topics that may possibly be included in the *Board's Work Plan for 2017–2018*.

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<sup>1</sup> The ICAS Foundation is a registered Scottish charity: No SC034836



## Trends and developments

Recent IAASB discussions in finalizing its *Strategy for 2015–2019* and *Work Plan for 2015–2016* have highlighted the following:<sup>2</sup>

### *Data analytics*

Further enhancements in information technology techniques, as well as the increased availability and connectivity of data and processes, lead to *data analytics* becoming more important in planning the audit and obtaining evidence to support the auditor's opinion. Exploring matters such as the impact on the risk assessment process, the mix of audit procedures performed to obtain appropriate audit evidence, the sampling design and robustness of the results, could assist the IAASB in determining whether changes may be needed to the International Standards on Auditing (ISAs) to ensure they remain "fit for purpose" in a changing environment.

### *Materiality*

The concept of *materiality* is a topic of importance to many in the financial reporting supply chain. The International Accounting Standards Board is discussing the concept, including the need for further guidance for preparers in applying the concept of materiality in practice. The IAASB has been following this work, in particular as it relates to the work the IAASB is in process of finalizing in relation to auditing financial statement disclosures. How will these developments impact auditors, in particular their risk assessment processes and identification of misstatements? How can the concept of materiality best be applied and explained in the context of auditing more qualitative disclosures in financial statements? How are auditors applying the concept of materiality to components in group audits? What expectations may investors have in relation to transparency about materiality levels in the auditor's report in light of the move to do so in the UK?

### *Audit quality*

*Audit quality* remains an important area in which to collect research findings, in particular as audits are being conducted in a more complex global business environment. For its future work plan, the IAASB is in particular interested in how audit quality is affected by the use of, among others, auditor's experts, other auditors (including component auditors as well as personnel in an accounting firm's shared service centres), and internal audit. The IAASB is also more broadly interested in perceptions of audit quality and ways in which the IAASB might seek to improve audit quality.

### *Preliminary announcements*

*Preliminary announcements* increasingly are an important basis for investors in their decision-making process. There are a number of areas to explore in relation to the topic that could inform the IAASB's considerations as to whether to undertake work in this area and the feasibility of doing so on an international basis. For example, it would first be useful to determine and identify jurisdictions where laws, regulation, or national auditing standards require or address auditor involvement with market-moving information, including preliminary announcements, either as part of the financial statement audit, or as other reporting responsibilities. Further, what expectations do different types of investors have in relation to auditor involvement with, preliminary announcements? What balance is expected between timeliness of preliminary announcements and any increased auditor involvement?

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<sup>2</sup> For more details, please see <http://www2.ifac.org/publications-resources/iaasb-strategy-2015-2019> and <http://www2.ifac.org/publications-resources/iaasb-work-plan-2015-2016> as well as the related [Basis for Conclusions](#) documents.

## Professional judgment and professional skepticism

### *Professional judgment*

*Professional judgment* has always been a central aspect in performing audits and other assurance engagements. With the increased complexity of the environment in which a reporting entity operates, as well as new developments in accounting and reporting, the complexity of auditors' professional judgments is increasing. Seen in a wider context of professional skepticism, competence of the auditor and relevance of documenting such judgments, what implications for international auditing and assurance standards can be drawn from academic research on the topic of professional judgment in a highly complex audit environment e.g. with an increased emphasis on fair value?

Related to this, is the question of the auditability of information prepared in accordance with accounting standards. This includes consideration of whether or not the complexity of certain accounting standards and degree of professional judgment required results in any limitation on the degree of reliability that can be placed on the information that is reported and thus audited.

### *Professional skepticism*

The topic of *professional skepticism* has been continuously raised by audit oversight bodies as an area where further work is needed, and is therefore pertinent to the future work of the IAASB. The IAASB is interested in understanding perspectives on how professional skepticism might be enhanced in audits (for example, by strengthening the auditor's work effort in relation to ISA 240, *The Auditor's Responsibilities in Relation to Fraud in an Audit of Financial Statements*) or even more broadly in relation to other assurance engagements/reporting regimes.

## Implementation of IAASB's international standards

### *New and revised auditor reporting standards*

In January 2015, the IAASB released a suite of new and revised auditor reporting standards intended to enhance the relevance and usefulness of the independent auditor's report. These standards are effective for audits of financial statements for periods ending on or after 15 December 2016. (see: [www.iaasb.org/auditor-reporting](http://www.iaasb.org/auditor-reporting))

The IAASB is interested in research on the topic of auditor reporting. In particular, the IAASB is interested in learning about:

- Users' perceptions of the usefulness of the auditor's report in view of the IAASB's changes. Details about the usefulness of each of the improvements would be helpful, in particular, the Key Audit Matters section.
- Whether the changes to the auditor's report, in particular in the case of listed entities, result in an impact on audit fees and, if so, how.
- Whether and how law, regulation and national auditing standards have been revised or updated to align with the IAASB's new and revised auditor reporting standards and if not, why not.

The IAASB is also looking to learn more about how auditor's reports on summary financial statements are used among investors and other users of financial statements.<sup>3</sup>

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<sup>3</sup> For more information about the international standard on auditor reporting on summary financial statements, please see ISA 810, *Engagements to Report on Summary Financial Statements*.

## **Selection criteria**

IAAER and ICAS invite proposals from research teams domiciled anywhere in the world. Proposals are especially encouraged from research teams whose members are from different regions of the world. All research approaches and paradigms are welcome, including modeling, archival, experimental, surveys and field analyses.

A key consideration of the Project Advisory Committee will be whether a research proposal fits within the objectives of the IAASB and its future work in particular areas. For research proposals related to *trends and developments*, it is of importance that the project is capable of producing findings in a short timeframe that coincides with the IAASB's deliberation of the issues, in particular during its planned information-gathering activities. For research proposals that address issues having relevance to the longer term as suggested under *professional judgment and professional skepticism* and *implementation of IAASB's international standards*, the IAASB welcomes research proposals that are focused and build on earlier research, yet at the same time distinguish themselves with a particular angle. The research findings should be able to result in recommendations to the IAASB and further research.

## **Program funding and support**

Funding discussions will be made by the Program Advisory Committee (PAC). Up to four research projects will be funded at £20,000 each. Grants will be paid in three installments (following successful completion of each project deliverable) and may be applied to cover travel costs associated with attending program events and/or direct costs associated with the research.

In addition to the financial support offered by the grants, in-kind assistance will be offered to the successful teams to gain access to relevant individuals, including access to the ICAS membership, and support and communication with the PAC throughout the projects.

## **Project deliverables**

Research teams will sign contracts on or before 15 November 2015. Each contract will specify interim milestones, deliverables, and expected delivery dates. Key dates to be agreed to in the contract include:

### *April 2016*

Research designs and interim results will be presented at a by-invitation one-day IAASB/ICAS/IAAER workshop (date to be announced, London). Teams will be required to submit interim results to the PAC two weeks prior to the workshop. The first grant installment of £6,000 will be dispersed to each team following the workshop, subject to the PAC's satisfaction with the quality of the research design and interim results.

### *February 2017*

Research teams will present interim research findings via a conference call. Teams will be required to submit interim results to the PAC two weeks prior to the conference call. The second grant installment of £7,000 will be dispersed to each team following the conference call, subject to the PAC's satisfaction with the quality of the results to date.

### *September 2017*

Final results will be presented at a by-invitation one-day IAASB/ICAS/IAAER workshop (date and location to be announced). The final deliverable will focus on highlighting the significance of the findings to the IAASB. Teams will be required to submit a final report (maximum 10,000 words) to the PAC two weeks prior to the

workshop. Teams will also be required to prepare an executive summary and high-quality presentation. The final report, executive summary and the presentation will include recommendations to practice and to the IAASB, in addition to information on the research design and research results. Following feedback from the PAC at the workshop, teams will submit a revised report for publication by IAASB, ICAS and IAAER. The revised report should be submitted within one month of the workshop. The third grant installment of £7,000 will be dispersed to each team following the workshop and subject to the PAC's satisfaction with the quality of the research report, presentation, executive summary, and recommendations to the IAASB.

### **Research proposal format**

Research proposals should be concise and not exceed 10 pages (1.5 spacing and 10 font Arial). All proposals should be in English. Proposals should contain the following information:

- Clear and concise definitions and description of the:
  - research question
  - research objectives
  - research method to be employed
- Description of the proposed research activities
- References to leading studies on the topic (a reference list to be attached that does not exceed two pages)
- Indication of how the proposed research will inform the IAASB decision process for at least one current agenda item or suggested topic listed in this research proposal

Each research proposal should additionally:

- Designate a Principal Investigator who will have primary contractual responsibility for the research project
- Include a curriculum vitae for each member of the research team
- Explain why the research team members are suitable individuals to undertake the project, demonstrating your knowledge and experience in the area

### **Publication and dissemination of research findings**

A report should be submitted for publication by IAASB, ICAS and IAAER. The report should be written in an accessible way to appeal to a wide professional audience and be a maximum of 10,000 words. The resultant reports will be used to inform the IAASB, public debate and policy development and the projects will therefore be high profile.

Research teams are also encouraged to publish their findings in academic and practice journals of their choice, following publication of the above report.

In addition, launch events for the reports may also be held to encourage dissemination of the findings and research impact amongst the profession and policy makers.

## Members of the Program Advisory Committee

### IAASB

Prof. Annette Köhler, IAASB Member & University of Duisburg-Essen

Ron Salole, IAASB Member

Dr Nancy Kamp-Roelands, IAASB, Deputy Director

### ICAS

Dr Allister Wilson, Convener, ICAS Research Committee & Partner EY

Michelle Crickett, Director of Research, ICAS

Prof. Stefano Zambon, Member, ICAS Research Committee & University of Ferrara

James Barbour, Director, Technical Policy, ICAS

### IAAER

Prof. Katherine Schipper, President, IAAER & Duke University

Prof. Alfred Wagenhofer, Vice President Research, IAAER & University of Graz

Prof. Donna Street, Director of Research and Educational Activities, IAAER & University of Dayton

Prof. Ulrike Stefani, University of Konstanz

### Submission deadline

The proposal submission deadline for the Informing the *IAASB Standard Setting Process* is **1 October 2015**. Funding decisions will be announced no later than **1 November 2015**.

All proposals are to be submitted electronically to the Program Coordinator at: [dstreet1@udayton.edu](mailto:dstreet1@udayton.edu).

Proposal text and supporting material should be submitted in a **single electronic file in Word format**.

Questions about the program or the proposal process should be directed at: [dstreet1@udayton.edu](mailto:dstreet1@udayton.edu).

