Focus on Research

The research newsletter of The Institute of Chartered Accountants of Scotland

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EDITORIAL

Welcome to the Spring 2016 edition of our research newsletter. We hope you find the newsletter interesting.

If you are attending the EAA Congress we look forward to chatting to you about our funding opportunities and new publications. Please drop by our exhibition stand to say hello. You can also enter our free prize draw to win an iPad mini by dropping your business card or e-news subscription form into our prize draw box – good luck!

We are arranging a symposium at the May 2016 EAA Congress on *What is performance?* We hope that you will be able to join this debate. An ICAS thought piece on performance will be published at the EAA and from this we would anticipate issuing a call for research in this area. Details on page 13.

Research impact is a key factor for ICAS and we are committed to working with academics to maximise impact from their research to the benefit of all parties. Further information on this is available on page 9 where we profile our research funding opportunities and also an indication of impact arising from new research reports is highlighted in the new research section (see pages 1-8).

We are delighted to be able to profile our new research reports in this newsletter – covering assurance, corporate and financial reporting, directors’ dilemmas and audit skills. Three of these publications are joint projects, one with EFRAG (pages 3-4) and two with the UK FRC (pages 6-8). Working with both bodies has been hugely beneficial to the research projects and has and will continue to increase the impact of the resultant research. ICAS is also pleased to announce new collaborative projects with the IAASB and IAAER – see page 11 – and with the University of St Andrews – see page 14.

ICAS has launched a new business ethics initiative ‘The Power of One’ which calls upon every CA to place ethical leadership at the heart of their professional responsibilities and to stand up for what is right – details on this and the forthcoming 2nd edition of the *ICAS Professional judgement framework* are profiled on pages 17 and 18.

We are pleased to announce three new ICAS Research Committee members (see pages 19-20). The Research Committee drives the strategy of the ICAS Research Centre and we are delighted with the calibre and mix of individuals we have on the Committee.

Finally, we would like to welcome Ange Wilkie, the ICAS Research Coordinator, back from her maternity leave in May. Ange will return part time and Jennie will continue to provide support and assistance in the Research Department in addition to a new role in our Tax Team.

The ICAS Research Team

THE TEAM

Michelle Crickett
Director of Research

Ange Wilkie
Research Coordinator

Jennie Shields
Research & Tax PA

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FAIR, BALANCED AND UNDERSTANDABLE: ENHANCING CORPORATE REPORTING AND ASSURANCE?

Debates continue over narrative corporate reporting and the extent to which assurance should be provided on it. ICAS has been at the forefront of the argument and, in the discussion papers The Future of Assurance and Balanced and Reasonable, proposed that the external audit and assurance reports for listed companies should include a ‘positive’ opinion as to whether the annual report, other than the financial statements themselves, is ‘balanced and reasonable’. More recently, the UK Financial Reporting Council (FRC) has required companies to confirm that their annual reports are ‘fair, balanced and understandable’ (FBU) with their auditors being required to report ‘by exception’ on this assertion. The FBU initiative, therefore, innovates in both corporate and audit reporting.

Over the past year, we have carried out an ICAS funded research project with the twin objectives of identifying both how FBU is working out in practice and perceptions of how desirable and feasible it would be to upgrade the assurance provided to the provision of a ‘positive’ opinion. Our findings are detailed in a new ICAS research report Fair, Balanced and Understandable: Enhancing corporate reporting and assurance, this article gives Focus on Research readers a flavour of the research.

In addressing the issues, we carried out 28 interviews; these were mainly with three key individuals (audit partner, finance director or substitute and audit committee chair or substitute) from nine case companies. The case companies were all listed, seven from the FTSE 100 and two from the FTSE 250 and were audited by the Big 4 (two companies each) and a large non-Big 4 firm (one company). An additional interview was undertaken with an auditor from another large non-Big 4 firm.

KEY FINDINGS

Impact on corporate reporting
Given the standing and size of the case companies, it was to be expected that existing reporting standards were high and so it was perhaps unsurprising that the impact of FBU on ‘front-half’ content was viewed as relatively modest. However, the impact on the way the ‘front-half’ was packaged and the extent to which it presented a coherent ‘story’, was viewed as much more significant. Some individuals went much further; a Big 4 partner responsible for a major player in the oil and gas sector suggested that:

There had been a massive impact on reporting quality … [enabling] companies to tell a coherent story … there used to be a times quite a disconnect between the ‘front-end’ and the ‘back-end’… sometimes if you ripped [several] annual reports in half you couldn’t tell which ‘front-end’ went with which ‘back-end’.

It’s worth reiterating that our research concentrated on major FTSE companies; a focus on smaller listed companies might arguably have identified more radical impact on ‘front-half’ content.

The increasing opaqueness and complexity of the financial statements, however, continues to be viewed as a problem; despite the FRC’s recent ‘Cutting Clutter’ and ‘Clear and Concise’ initiatives, FBU largely does not appear to have impacted positively on the ‘back-half’, indeed an audit committee chair suggested that ‘it’s allowed people to push stuff even further back’ and an audit partner suggested if companies were determined to reduce ‘clutter’ meaningfully, they were required to make some aggressive materiality calls, with the consequent risk of regulatory censure. If regulators wish to prioritise more accessible financial statements, more radical measures may be required.
Other interesting issues which emerged from the research included the varying extent to which users (and auditors) considered pictorial and graphical content when assessing FBU and the challenges involved when assessing the extent to which the understandable element of FBU had been realised; some individuals approached this from the perspective of the ‘expert’ user; others from that of users less so.

Investor feedback
Companies, and their auditors, appear to have so far received little feedback from investors on FBU and assurance on it. It’s unclear whether this reflects lack of interest, the availability of alternative information sources, greater interest in initiatives such as the new audit report or belief that the whole annual report is already audited. There is a need for research to clarify investor opinion.

Impact on audit
While audit reporting by exception on the ‘front-half’ is not viewed generally to have resulted in an assurance step change, there is a strong element of opinion which believes that FBU has enhanced assurance significantly. A key element in this is perceived to be that auditors now have the necessary ammunition with which to challenge auditors on ‘front-half’ assertions robustly. Previously, one audit partner suggested, ‘we didn’t have the teeth to be able to challenge’ [the ‘story’ presented by the company in its ‘front-half’].

A few non-auditors, however, were heavily critical of auditors’ ability or willingness to engage with the ‘front-half’ meaningfully. The deputy finance director of a FTSE financial suggested that:

… how as a company you’re trying to connect your numbers, your strategy and a long term view … is very different from what auditors are getting pushed to do to make sure they’ve got the right documentation on their files; sometimes auditors have got a very narrow compliance outlook.

Positive assurance?
While there is a general recognition that positive assurance on at least some ‘front-half’ content is technically feasible, there is no general appetite for overall positive assurance. Auditors themselves, however, are optimistic as to their ability to provide positive ‘front-half’ assurance, particularly if a framework for this can be agreed.

Two audit partners from different Big 4 firms suggested respectively that:

… as a firm we would probably be happy to say that this is what we have done on the ‘front-half’ and this is why it is FBU’ and ‘the profession has always been far too reticent on giving assurance on things … so much of this is driven by litigation risk. Could we give a [positive] opinion on the ‘front-half’? … absolutely, as long as the standards on which that is based is clear.

Such views, however, were sometimes caveated by uncertainties about investor appetite for assurance.

Auditor skills and training
Emphasis on assuring narrative information arguably represents a new departure for auditors and so the opportunity was taken to identify whether they are perceived as having to acquire new skills as a result of FBU. In general this is not viewed to be the case but some non-auditors strongly believe that auditors exhibit insufficient business awareness more generally; not just at junior levels but sometimes at those more senior levels too.

A finance director suggested that:

[Auditor behaviour] is increasingly becoming a compliance exercise … sometimes common sense flies out of the window

While another believed that, even with partners and other senior auditors:

… there should be more engagement with what’s going on in the business … I still think there’s more focus on an accounting policy … rather than how you’re communicating your business.

THE FUTURE
Summarising, our research suggests that the impact of FBU on corporate reporting is viewed generally as a ‘good thing’, although more radical regulatory initiatives may be required if objectives such as more accessible financial statements are to be realised successfully.

The jury is still out what the exact parameters of ‘front-half’ assurance should be and work remains to be done in assessing the precise nature of auditor demand in this area. It’s highly encouraging that senior members of the audit profession are positive about extending the boundaries of assurance; at the same time, non-auditor concerns about the extent to which auditors, willingly or not, focus on technical accounting and compliance, rather than on commercial, matters, require addressing if the external audit function is to maximise its potential for the twenty-first century.

RESEARCH IMPACT
The research is being used by ICAS in its high profile programme of work on the future of assurance.

The research was launched at a discussion event, hosted by PwC in London in January 2016 – for details of this event please see page 12.

The research will also be debated at an ICAS panel session at the Audit & Assurance Conference in Oxford in May 2016 – for details see page 13.

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New Research

Professional Investors and the Decision Usefulness of Financial Reporting

Do investors assess financial reporting differently depending on whether they wish to judge the stewardship of management or to value the firm? This question is interesting because the International Accounting Standards Board (IASB) seems to favour the concept of a 'one size fits all' accounting regime that aims to fulfil both objectives concurrently. A recent large-scale survey of international professional investors conducted by the authors for ICAS and the European Financial Reporting Advisory Group (EFRAG) set out to address this question and the findings suggest that the objectives of financial reporting do matter.

By changing its Conceptual Framework for Financial Reporting in 2010 (at the time, jointly with the US Financial Accounting Standards Board), the IASB started a contentious discussion about whether stewardship should remain as a separate objective for financial reporting, or whether it should be subsumed within an overall objective of ‘decision usefulness’. This debate is still underway as the IASB considers further changes to the Conceptual Framework, following its 2015 Exposure Draft.

Few would disagree that the primary role of financial reporting is to inform users’ decisions, so decision usefulness might seem a reasonable overall objective to pursue. However, it is an important and unsettled question whether different decisions - those related to valuation and those related to stewardship - require different approaches to accounting recognition, measurement, and disclosure. In theory, while there are many areas where a valuation objective for financial reporting will coincide with a stewardship objective, there are also cases where it will not. Moreover, since financial statements comprise a variety of line items and disclosures with different properties, it might be possible to meet both objectives simultaneously by emphasising different objectives in different locations.

Consider fair value accounting which, directly or indirectly, includes forward-looking estimates of future cash flows, discounted to present value. Such information is naturally well-suited to investment and security valuation decisions (i.e., it is highly relevant), though in the case of level three ‘mark-to-model’ fair value, some may question its representational faithfulness because different preparers will inevitably arrive at different estimates of cash flows and discount rates - either with or without any intended bias. For stewardship purposes, however, information based on managerial judgement is arguably less useful, because management should not be compensated solely on its own view of the future. Additionally, many fair value estimates are driven by market movements that are outside the control of management. This means fair values may be unhelpful for assessing managerial performance because when market values rise, managers are rewarded for ‘luck,’ and when they fall, managers are unduly penalised. Given that managers often have undiversified sources of income, they are more likely to demand higher wages when their compensation is tied too closely to market-wide events. Hence, in theory, a stewardship view of accounting prioritises verifiable information on activities over which managers have control, whereas a valuation objective requires information about the amount, timing and riskiness of future cash flows, regardless of origin.

From a theoretical perspective, however, it is possible to come up with plausible arguments that contradict this view. For instance, fair values are sometimes argued to be useful for managerial evaluation precisely because they contain market-wide information, reflecting an unbiased view of managerial performance. These contrasting views justify the importance of the survey. Professional investors are among the most important users of financial statements and therefore, their views are a key input to this conceptual debate. The research involved presenting investors with a fictional case study where different participants faced different objectives for acquiring accounting information.

The survey also sought to examine the consequences of linking accounting figures to managers’ remuneration. The conventional view is that users assess accounting information to be less faithfully represented when accounting determines managerial compensation, on the basis that this link motivates managers to bias reported accounting information. However, it is unclear how strong this link is given that financial accounting information is subject to audit and governance oversight.

To investigate the impact of the information objective and managerial compensation arrangements on the assessed relevance and reliability of financial accounting information, over 80 professional investors from 16 different countries were interviewed at their place of work and were provided with the same case study, containing summary income statement and balance sheet data, along with information about the case company’s corporate governance and audit firm - both of which were explained to be of a high standard. Half of the sample was asked to use the...
financial reporting information to value the case company - a fictional privately held European manufacturing company - while the other half was asked to assess the performance of management. In addition, half of the sample of surveyed investors were told that company managers were compensated on the basis of accounting data, while the other half of the sample were told that compensation was not tied to accounting data. Each investor was then asked for their views of the relevance and representational faithfulness of the accounting data for their objective in the case.

The results indicate that objectives do matter. After controlling for respondents’ characteristics, such as their experience and occupation, professional investors regard accounting information overall to be more relevant for assessing firm value than for assessing managerial performance. For a stewardship objective, investors focus on information reflecting managerial effort and discard information not under managerial control, such as valuation gains and losses on financial instruments. Interestingly, however, when asked about the weight they attach to accounting information compared with other sources, professional investors attached more weight to financial reporting data for stewardship purposes, indicating that there are fewer alternative non-accounting information sources available for assessing stewardship.

Another interesting finding from the survey is that tying financial reporting information to management compensation has no significant effect on professional investors’ assessments of the representational faithfulness of accounting information. This is somewhat surprising. Further analysis revealed that while investors are aware that linking managerial compensation to accounting data may amplify preparers’ tendencies to manage earnings, they are less concerned about these risks when they judge overall corporate governance mechanisms to be sound.

When asked about the usefulness of different line items, professional investors expressed a clear preference for information contained in the income statement than in the balance sheet. Moreover, revenue and EBITDA (earnings before interest, tax, depreciation and amortisation) are regarded as more useful than net income, apparently because they are important for understanding the business and for estimating growth and profit margins. Balance sheet items are, however, assessed to be useful for financial companies and where company risk is high or financial health is suspect. In addition, views of balance sheet items seem to be affected by measurement bases. For example, level three financial instruments and intangible assets are assessed to be more relevant, but less faithfully represented, than property, plant and equipment.

The findings of the survey have important implications for standard setters, preparers and users of accounting information. First, one size does not fit all, suggesting that standard setters need to clearly prioritise the different objectives for financial reporting. Second, investors seem to be strongly anchored on the income statement, which seem to conflict with the balance sheet view promoted by the IASB’s existing framework. Their preference for non-GAAP EBITDA over net income suggests a need to develop more standardised relevant performance measures for the income statement. Third, investors’ perceptions of corporate governance significantly affect their views of representational faithfulness. Standard setters therefore need to consider the firm-level costs of corporate governance and enforcement of accounting standards, along with different sized companies’ ability to absorb these costs. On the other hand, for preparers, investment in high quality governance, including audit, may well pay off in the form of enhanced investor confidence.

This research is published by ICAS and EFRAG.

Download the report free of charge from icas.com

RESEARCH IMPACT
The research is being used by ICAS and EFRAG in their respective policy work and has been used by both bodies in their responses to the IASB Conceptual Framework Exposure Draft.

The final research findings were launched at a joint ICAS/IASB discussion event, in London in December 2015 – for details of this event please see page 13.

The research findings have been debated at a number of events, including:
• an ICAS symposium at 2015 EAA conference;
• numerous EFRAG events, including an event with the IASB and EFFAS and a conceptual framework conference; and
• an ICAS/EFRAG symposium at the 2015 EUFIN conference.

These events have included IASB Board members and leading figures from the investment community and the accountancy profession.

The research has also been presented at an International Forum of Standard Setters meeting and will be presented at a forthcoming IFRS Foundation meeting.
SHADES OF GREY: DIRECTORS’ DILEMMAS

Niamh Brennan, University College Dublin (UCD), reports on her new ICAS publication

Company directing is an art not a science, involving many judgemental and subjective issues. Directors are faced with many dilemmas in practice. Dilemmas involve people having to make difficult or awkward decisions. A dilemma has been defined as a ‘choice between two (or, loosely, more) alternatives either of which is (or appears) equally unfavourable’.

Shades of Grey: Directors’ Dilemmas published by ICAS builds on the work of ICAS’s Ethics Committee in Shades of Grey: Ethical Dilemmas, which dealt with ethical dilemmas facing professional accountants. It was preceded by David Molyneaux’s 2008 ICAS research report, What do you do now? Ethical Issues Encountered by Chartered Accountants. His report comprises 28 ethical dilemmas faced by chartered accountants. David was to have written Shades of Grey: Ethical Dilemmas but sadly passed away before that project commenced.

Following a similar style, Shades of Grey: Directors’ Dilemmas addresses dilemmas facing company directors. It contains 34 directors’ dilemmas with an analysis and discussion of each dilemma. My sources for the dilemmas comprise newspaper articles and heavily disguised personal experiences from my 25-years-plus service as a non-executive director on a range of boards and audit committees. I piloted the dilemmas amongst company directors and other students attending my corporate governance programme and courses at University College Dublin.

There is no right answer to each dilemma, although there may be some courses of action that are clearly wrong. The dilemmas are deliberately designed to capture the grey areas in the real world, and to illustrate just how difficult it can be to be a good company director. That said, while there are lots of shades of grey, good company directors need to call black ‘black’ when it is so. It is important that directors stand up and say when certain behaviour is wrong. Particularly in a boardroom scenario, if you believe something is ‘black’ but do not say so, then you risk losing the opportunity for it to be explained. The issue may turn out to be more complicated than at first glance.

The dilemmas cover areas of particular challenge in boardrooms including directors’ fiduciary duties/conflict of interest, the exercise of due care and skill, decision making, behavioural issues, information asymmetry and the conduct of board business.

My favourite of the 34 dilemmas (and the shortest!) is one many directors have experienced in one way or another. It goes like this:

Scenario:
You are the chairman of the board of a publicly listed company. You discover that the managing director has been having an affair with the finance director for the past two years. Both are single.

Question:
How would you as chairman handle the managing director’s and finance director’s behaviour?

The dilemmas are aimed at current and prospective company directors wanting to explore their responsibilities, directors and governors who may have encountered an ethical dilemma, those interested in governance, experienced professionals studying at executive education level, and less experienced undergraduate, postgraduate and professional accounting and law students who wish to better understand the complexities of the boardroom, together with educators wanting to use realistic case studies on ethics/corporate governance courses. The dilemmas raise issues common to many boards. For this reason, they are likely to have global application. Their discussion may need to be tailored to the regulations and corporate culture in individual jurisdictions.

The primary intention is for the dilemmas to be used for discussion and debate, led by an expert on the workings of boards of directors, either in a classroom/training setting or in a business setting. Its value is in the discussion and debate the dilemmas prompt. An effective leader will enhance the quality of that discussion and debate. The dilemmas may also be useful to individual boards/organisations, for example, as part of an agenda for an away-day style meeting. It could reveal and flush out issues lying below the surface in boardrooms that may be of benefit to organisations. However, some readers may consider the dilemmas on their own and the analysis of each dilemma is therefore written in such a manner that supports the individual reader in understanding the nuances of each dilemma.

In leading the dilemmas with my students, I (and they!) introduce humour into the discussion. Humour is a powerful pedagogic tool. I hope those using the dilemmas will enjoy them as much as I and my students have.

This report is published by ICAS under its ‘Power of One’ initiative - for further details see page 17.

Download the report free of charge from icas.com
THE CAPABILITY AND COMPETENCY REQUIREMENTS OF AUDITORS IN TODAY’S COMPLEX GLOBAL BUSINESS ENVIRONMENT

Karin Barac, University of Pretoria, Elizabeth Gammie, Robert Gordon University, Bryan Howieson, University of Adelaide, and Marianne van Staden, University of South Africa, report on their new study

Audit has recently been the subject of much scrutiny and questions have been raised about audit quality and the relevance of financial statement audits. One of the challenges faced by auditors is to ensure that audit teams have the collective capability to handle the rapidly changing business environment. Another challenge is to ensure that audit teams are positioned to respond to any redefining or broadening of the audit scope.

The aim of our research was to explore the views of key audit stakeholders, regarding the current and future capabilities of auditors with a view to proposing a strategy to ensure that auditors of today and tomorrow, individually and collectively as a team, have the necessary capabilities to perform high quality public interest audits.

We conducted interviews with individuals who are directly involved in the audit process (engagement partners, chairs of audit committees, chief financial officers, chief audit executives (internal audit) and experts) in six of the largest listed companies in each of the following countries, Australia, South Africa and the UK. We also interviewed individuals from each of the three countries who have some oversight, public policy or educative role with regard to audit. In total we carried out 84 interviews.

We found that whilst there is clearly a need for a statutory audit, this was often seen as a compliance driven exercise, as auditors responded to ever increasing regulation. Within this environment there was a general consensus, both from within and outside of the audit firm, that the audit teams were providing an acceptable service and teams, in general, had the appropriate capability. Some of the criticism levelled at audit firms was therefore judged to be an ‘expectation gap’ rather than a performance issue. Whilst revisions to the content and format of the audit report were seen to be a step in the right direction to address this ‘gap’ these revisions were not regarded as being sufficiently comprehensive. Audit teams, however, were criticised for their inability to provide any ‘added value’ to their audit clients by way of guidance or performance improvement and a constructive debate on the future of audit was called for.

It was noted that the increasing complexity of business and financial reporting standards and the challenges and opportunities provided by information technology developments required increasing specialisms within audit teams. Whilst the Big 4 have access to the requisite specialisms within their global networks, the integration of these specialists within the team remained a challenge.

Looking to the future, our interviewees indicated that the composition of audit teams will need to change as there will be an increasing need for individuals with more diverse backgrounds. It is therefore envisaged that individuals within audit teams in the future will all have core specialist skills but their further specialisms will be different. Some individuals will have core accounting and audit specialisms and wrapped round this will be general industry and business
knowledge, with an understanding of other specialist areas such as valuations and data analytics. Other individuals will be industry specialists or data analytic specialists and wrapped round these core specialisms will be general audit knowledge. Therefore instead of audit firms training auditors to become specialists, the audit teams will become more diverse and firms will be recruiting specialists and training them to become an effective part of the audit team.

Attracting quality people to, and retaining them within, the auditing profession will remain of paramount importance. Concerns about these issues were highlighted throughout the audit team hierarchy. Starting at the top, succession planning for the engagement partners (who were generally well regarded by the interviewees) is an issue as there was a feeling that insufficient numbers of more junior partners are coming through with the capability and presence to robustly challenge management. These more junior partners will need to be given the appropriate development opportunities to enhance their capabilities. At the lower end, early career specialism into a particular industry, with the exception of the highly specialised financial services industry, was also highlighted as an issue. Specialising too early can sacrifice breadth of experience for a narrow focus which in turn restricts the ability to add value through cross fertilisation from other work. However, this broader experience needs to be balanced against the requirement to really understand the client’s business. Thus, industry specialism was generally regarded as appropriate from the managerial level and above.

The audit firms’ training models were generally well perceived by our interviewees and there was a clear recognition that audit firms invest huge sums to train and develop their staff. However, some criticism was levelled at the training of the audit team and the audit firms were challenged to move away from their, perceived to be, cost-driven approach to training. It was suggested that the formal training was too focussed on the regulatory and technical aspects of audit and that insufficient time was given to developing and enhancing the audit teams’ business and industry prowess. Whilst the importance of experiential training and coaching was highlighted, it was further suggested that the coaching and mentoring of more junior audit members was not sufficiently embraced within audit teams.

It is difficult to develop a strategy to ensure that audit teams in the future will have the requisite capabilities and associated competencies to deliver high quality public interest audits in the future when it is uncertain what the future will hold. However, without a balanced, cohesive and compatible audit team of the right size and structure, with requisite industry and client business experience and an appropriate mix of capabilities across all the relevant technical areas, a high quality audit of a complex client is not possible.

This report is published by ICAS and the FRC. Download the report free of charge from icas.com

SKILLS, COMPETENCIES AND THE SUSTAINABILITY OF THE MODERN AUDIT

Business School report on their new study

Public practice accountancy firms recruit some of the best qualified graduates from UK universities and are popular choices amongst students seeking their first employment. The firms themselves are very successful businesses with high growth and apparently strong profitability. It is puzzling then that a recurring aspect of the business environment over several decades has been the criticism levelled at these firms regarding their execution of what many would regard as one of the single most defining services with which they are associated – the financial statement audit. Within the recent past, such criticisms have been most visibly linked to the global financial crisis and the behaviour of auditors in the lead up to, and in reacting to, that crisis. Why does this situation perpetuate and does its persistence threaten the continuation of financial statement auditing as a valued service? Is it conceivable that the audit profession lacks certain skills and competencies needed to deliver high quality audits in the modern business environment?

To address such questions, our study involved focus groups in the UK, Belgium, France, Germany and Sweden to establish perceptions about what is necessary to deliver high quality auditing. The groups included: audit partners; audit committee members; regulators; users; and academics. In addition some sessions were held with trainee chartered accountants and students.

The picture that emerged from the discussions was not a list of specific skills and competencies to be framed into a new competency framework or examination syllabus. Rather, from all the focus groups in different locations and countries, the picture is one of a bigger constellation of areas of difficulty, or ‘pressure points’ where the challenges lie for auditors in both undertaking the audit and organising that professional service at suitable quality.

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Some of these pressures arise from the changing context of the audit engagement in large complex enterprises. For example, the auditor’s ability to understand the business is critical for an effective audit function and the complexity and scale of major enterprises together with the technical issues that arise in specific industries place increasing pressure on that understanding. Developments in financial reporting have added a dimension of accounting complexity and give rise to concerns that, in the words of one focus group member, ‘the auditor is no longer the accounting expert’. Systems complexity, and with it the speed and remoteness of information processing, places considerable pressure for skills to supervise and evaluate analytical work and is changing the nature of what constitutes evidence for audit purposes.

Other pressures relate to the ways in which audit personnel are developed. Individual professional judgement and resilience were noted as critical for auditing and auditors need to possess psychological awareness and courage, but the development of those qualities is undermined by the increasing routinisation of audit processes and reliance on checklists to ensure compliance with standards. Comments in focus groups suggest there are considerable challenges for audit firms concerning how they nurture the development of staff, for example how junior staff participate in and see auditor judgement in action, the image of what is necessary to progress to partnership and how firms demonstrate the attractiveness of audit as a long-term professional career.

Concerns were also expressed that reflect tensions within the structures of the firms that supply audit services. The loss of attraction of auditing as a destination career, coupled with perceived changes in the conventional pyramid organisational structure raises questions about how well placed the firms are to recruit and are viewed by, stakeholders and society. Here, auditors have to balance a range of demands – regulatory requirements have to be satisfied, the audit must be conducted in a manner that makes a contribution to good governance and is of value to the reporting entity and quality must be demonstrated through communication to other stakeholders. Regulation has encouraged improvements in audit quality but the dominance of a compliance mind-set can detract from the development of professional judgement. High quality communication with those charged with governance demands high level interpersonal skills that may not be reflected in conventional recruitment processes. Commercial pressures on audit fee margins, regulatory restrictions on auditor-client relationships and the intangible nature of audit quality are all factors capable of impacting on the ‘value contribution’ of audit.

While some of the pressures noted above may be addressed through areas of traditional skill, such as technical accounting ability, understanding the entity being audited and communication, others suggest a changing need for qualities like psychological awareness, project management and adapting judgement to the changing context in which it is being exercised. However, the bigger picture that emerges is one where the challenge will not be met by a checklist of skills but rather by more fundamentally considering what can be referred to as the functional competence of audit and what ‘value proposition’ it offers to business and society in the future. There is a need to create space for a debate about auditing that goes beyond reacting to, or mounting a defence against, the most recent set of criticisms and that does more than offer a technical or educational solution to what is a bigger, more systemic problem. Considering the functional competence of audit cannot be restricted to a focus on highly specific or particular individual skills and competencies. It requires the asking of bigger questions. The auditing profession has to be willing to ask itself whether the current position offers the best that can be done in the name of audit. Without that willingness, the sustainability of auditing has to be questioned. The auditing profession has of course survived through criticisms of an expectations gap before and can point to positive responses to the recent extensions in the audit report as evidence that the standing of auditing is improving. However, it is notable that although our focus groups were conducted in a number of different environments and with diverse participants, a strong and consistent message was that the future sustainability of auditing as a valued function is under threat and depends on the willingness of practitioners, beneficiaries and regulators to reassess all aspects of the function – the content of the service, the development of personnel to carry it out and its economics as a business.

If auditing is to be understood as a skilled, judgemental activity and not just an exercise in compliance monitoring, then recent efforts to make the nature and value of the exercise of professional judgement more visible must be maintained. The multi-service firms that offer audit services must ensure that generic recruitment processes sufficiently reflect the specific attributes that are necessary for audit. They must also confront the challenge of how they utilise staff to nurture and reward intellectual curiosity and not just technical compliance, and whether their structures and control systems undermine the development of the softer psychological and interpersonal skills that are claimed as so important for audit quality.

Audit teams must exhibit a collective competence that goes beyond a list of generic standards and skills required of individual auditors and firms must recognise that the impact that their organisational structures and cultures can have on the overall effectiveness of their audits. It may be time to re-assert the importance of auditing and associated skills and competencies in the identities and defining characteristics of professional firms and in relation to professional career development paths. Finally, there may be a need to revisit the professional and regulatory emphasis on audit uniformity, typically represented by the insistence that ‘an audit is an audit’, to give greater recognition to the contextual nature of audit and variation in the ways of meeting ‘standards’ and to allow innovation and development in what we understand and recognise as an audit ‘function’.

This report is published by ICAS and the FRC. Download the report free of charge from icas.com
ICAS is committed to promoting evidence-based policy making and therefore commissions research in key areas to support the development of policy. We believe that focusing on a number of specific topics of interest will maximise the impact of the resultant research and will be beneficial to our researchers, ICAS and policy makers.

We have two streams for research applications which are summarised below:

**PRO-ACTIVE APPLICATIONS**

Applications for research funding are invited to be submitted where they are in the public interest and are consistent with the ICAS Technical Policy Board’s (TPB’s) policy themes and the policy positions of one of the ICAS technical committees. These themes and policy positions are available from the ICAS website and more detail is provided on page 10. Applications are welcome at any point in time.

**CALLS FOR RESEARCH**

ICAS will identify topics where research is considered crucial to take forward an important issue affecting the profession or business in an international or UK context. In such circumstances a call for research will be issued and advertised on our website. The calls for research may be specific or identify a broader theme or programme of work. Each call for research will specify the application requirements, including the deadline by which applications must be received. See our website for details of any current calls for research and subscribe to our e-news service to ensure you are notified of new calls for research as they are issued.

**WHY APPLY TO ICAS**

We provide a helpful, friendly and approachable service to our researchers. The Research Centre can offer assistance with projects whilst allowing researchers to maintain their independence. We provide financial as well as in-kind support to our researchers to maximise the impact and influence of the research.

The resultant research will normally be used by ICAS in order to pursue policy change and in some circumstances the research will also feed into larger ICAS thought leadership projects.

**INFORMATION**

Applications for funding are welcome from researchers and institutions anywhere in the world and are not restricted to the academic community.

Please do keep an eye on our website or if you are a subscriber to our e-news service, watch out for news of new funding opportunities arriving in your inbox. You can subscribe to our e-news service by emailing: research@icas.com.

For further details on the application and review process please visit icas.com and search for research funding.

If you have any queries please contact the ICAS Research Centre - email research@icas.com or phone +44(0)131 347 0237.

ICAS remains firmly committed to funding world class academic research that has the potential of having a real impact on important issues that affect the profession or business, either in the UK or internationally.

Allister Wilson
Convener, ICAS Research Committee
PRO-ACTIVE APPLICATIONS

We want to hear your ideas for policy relevant research. If you have an idea for a project which ties in with our policy themes and positions please submit an informal proposal form.

At ICAS we recognise the importance of receiving pro-active applications to ensure that we continue to fund original, innovative and leading research projects. Whilst we will continue to issue calls for research, our pro-active stream of applications is still vital to our portfolio of research projects. Although the idea for research will come from you we will help you to develop the project, whilst allowing you to maintain your independence, and will work with you to maximise the impact of your research.

A variety of research themes, methods and approaches are welcome and applications can be made at any point in time. We are seeking high quality applications which will generate impact. Applications should meet our criteria of being in the public interest and be aligned to the ICAS Technical Policy Board’s (TPB) Key policy themes and positions. This document is available at icas.com. The key themes are outlined below.

The key policy themes document also specifies the specific committee policy positions for our Technical Committees:

- Accounting Standards Committee
- Corporate Reporting Committee
- Auditing and Assurance Committee
- Business Policy Committee
- Charities Committee
- Pensions Committee
- Public Sector Committee
- Sustainability Committee
- Tax Committee

Applicants should, in the first instance, complete our short informal proposal form, specifying how the proposed project will contribute to the ICAS policy themes and policy positions and its relevance to one of our technical committees. The Research Centre will provide informal and constructive feedback on the project, prior to asking selected applicants to proceed to the formal application stage. The formal application will then be considered by the Research Committee and the TPB.

Download the ICAS Key policy themes and positions and Guidance notes for applicants from icas.com.

Complete a pro-active informal proposal form and submit to research@icas.com.

All of these documents are available from our research funding page at icas.com - search for research funding.

OVERALL POLICY THEMES

- **Public interest**: acting in the public interest in accordance with our charter requirements and, where not incompatible with this, representing and protecting the interests of members.
- **Ethics and integrity**: leadership role in promoting ethics and integrity in business and the profession and encouraging our members to take personal ownership and responsibility for ethical matters in their organisations, their professional and business lives and in all their actions.
- **Engagement in public debates** – eg re UK membership of EU, devolution of powers to Scotland: support and the provision of full information as a basis for the electorate making decisions on key issues – asking questions and making comments within our areas of expertise, but without taking sides or engaging in the political aspects of the debate.
- **Long term perspective**: promotion of a longer term perspective, in order to create an environment for sustainable business investment and development.
- **Principles not rules**: support for principles rather than rules, and scope for exercise of professional judgement.
- **Better regulation**: support for more focused and effective regulation in accordance with the ‘principles of better regulation’, for reducing and preventing unnecessary regulatory burdens, and for market based solutions wherever possible.
- **Enterprise**: support for improvement of the entrepreneurial environment, especially for smaller businesses, and encouragement of entrepreneurship and business start-ups.
- **Corporate responsibility**: promoting responsible corporate behaviour and encouraging our members to do likewise.
- **Sound governance**: support for, and encouragement of, sound governance practices and procedures proportionate to the size and complexity of the organisation.
- **Transparency and accountability**: promotion of transparency and accountability across all sectors in order to support the principle of holding decision makers to account.
ICAS, IAASB & IAAER ANNOUNCES TEAMS TO UNDERTAKE RESEARCH TO INFORM THE IAASB STANDARD SETTING PROCESS

In spring 2015 ICAS, the International Association for Accounting Education and Research (IAAER) and the International Auditing and Assurance Standards Board (IAASB) invited research proposals under the ‘Informing the IAASB Standard Setting Process’ program.

ICAS, IAAER and IAASB are pleased to announce details of the two successful teams which have been awarded grants under this scheme. The funding for this program has been provided by ICAS and the ICAS Foundation (exclusively from the SATER funds).

Coordination and communication challenges in global group audits: Evidence from component audit leaders

Denise Hanes Downey, Villanova University, Anna Gold, Vrije Universiteit Amsterdam, and Andrew Trotman, Northeastern University

Concerns have been raised with the following aspects of group audits: inadequacies within the planning phase, inadequacies within the execution and completion phase; and overall lack of group audit leader involvement in the audit. Many of these concerns appear to be challenges that are related to the coordination and communication between the global group auditor and the component auditor. This study, through a survey of component auditors in four different countries, will seek to identify what factors determine these challenges, what strategies might help to overcome them, or how these challenges ultimately influence engagement performance.

Unlocking the black box in fair value measurement (FVM): Examining how valuation specialists prepare and evaluate FVMs

Dereck Barr-Pulliam, University of Wisconsin-Madison, Jennifer R. Joe, University of Delaware, Stephani A. Mason, Depaul University, and Kerri-Ann Sanderson, Bentley University

This study examines the process that valuation specialists use when preparing fair value measurements (FVMs) for management and evaluating the reasonableness of management’s FVMs for auditors. It examines the factors that influence the valuation specialist’s analyses, whether the purpose of the valuation specialist’s task (preparation of FVM for management and or evaluation of FVM for auditors) influences the process they use, and the auditability of FVMs. A combination of surveys and interviews with valuation specialists employed by accounting firms will be undertaken.
ICAS recently arranged two technical events to launch new research reports – details reported below. Both events attracted large audiences and an excellent mix of academics, representatives from the profession, business, the investor community and policy makers and regulators. Such events are a great way to profile ICAS research and enable the results of academic research to be disseminated and used and debated beyond academia. Our technical discussion events are free to attend – if you would like to be notified of future events please subscribe to our e-news service by emailing research@icas.com

ASSURANCE: WHERE NEXT?

This event launched the new ICAS research by Ian Fraser and Boram Lee, on the Financial Reporting Council’s recently introduced ‘fair, balanced and understandable (FBU)’ regime for narrative reporting (see pages 1-2). The ICAS event was kindly hosted by PwC in their London offices on 19 January 2016.

Professor Ian Fraser CA presented the findings of the research, he reported that FBU was regarded as a good thing, but added that views amongst auditors, accounts preparers and investors differed as to whether the new requirements had changed the content of narrative reporting. Some auditors had suggested that FBU had given them more clout to challenge management when necessary.

The audience also heard from ICAS Technical Executive Director David Wood CA about the current ICAS programme of work on assurance and from Andrew Gray CA, Regulatory and Audit Co-ordination Manager Deutsche Bank, who explained how a working group set up by ICAS had set out guidelines for boards – Towards Transparency, published in 2015 - to help determine the appropriate type of assurance obtained over individual key performance indicators (KPIs) and how this could be communicated. He said challenges included the question of costs versus benefit, determining the correct level of assurance on KPIs and meeting users’ expectations.

The seminar, chaired by ICAS President Jim Pettigrew CA, also included a panel discussion with: Ian Fraser; Gilly Lord, Head of Regulatory Affairs, PwC; Marek Grabowski, Director of Audit Policy, Financial Reporting Council and a member of the International Auditing and Assurance Standards Board; Iain Richards, Head of Responsible Investment, EMEA, Columbia Threadneedle Investments; and Paul Taylor, Non-Executive Director and Business Consultant.

One of the key questions debated at the event was whether auditors could provide greater assurance on the narrative, non-financial element in company reports? And if so, is there a demand for it? That conclusion of a straw poll of the audience suggested that the subjective nature of the data (38%) and the auditor’s skill set (34%) are the main challenges standing in the way of extending assurance to more of the narrative information in the ‘front half’ of company reports.

While some investors appear to welcome greater assurance in narrative reporting, the consensus was that such assurance cannot be uniform. External assurance is more feasible to apply to some areas than others, especially where reported data is historic, quantifiable and verifiable.

As Jim Pettigrew put it: ‘No one is suggesting blanket assurance over everything, but there are areas, such as KPIs, where assurance is important. Ultimately, we all have to get this right!’
HELP SHAPE THE FUTURE OF FINANCIAL REPORTING

This joint ICAS/IASB event launched the findings of the ICAS/EFGRG research on professional investors and the decision usefulness of financial reporting (see pages 3-4). The event was held in London on 1 December 2015.

The future of corporate reporting and the role of financial reporting standards were amongst the topics debated. The event focused on two key projects for the IASB – their consultation on the future agenda for standard-setting, and the Conceptual Framework for Financial Reporting, both of which are fundamental to the future direction of travel for international financial reporting. It also covered aspects of the IFRS Foundation Trustees’ Review of Structure and Effectiveness, which addressed some of the overarching issues for the IASB. Some of the main points from the debate are noted below:

Future of standard-setting

The IASB’s proposed evidence-based approach to standard-setting met with broad support from participants, with calls for better engagement between the IASB and academic community to ensure that proposed research is sufficiently robust and focused so that the results of the research can be used effectively.

There was a plea for the IASB to ‘stop tinkering’ with minor changes to standards, and to focus on areas where fundamental changes are needed.

The role of stewardship

One of the most hotly-debated areas of the IASB’s conceptual framework has been the stewardship objective of financial statements. Whilst the role of stewardship has been strengthened in the current draft of the framework, many speakers thought it should be given further prominence.

Professor Mark Clatworthy, referring to the new ICAS/EFGRG research, noted that financial statements are considered more important compared with other information sources when assessing stewardship.

Performance reporting

Performance reporting was highlighted as one of the crucial future projects for the IASB. Profit is one of the key numbers that investors focus on, but is not defined in the conceptual framework – whether a single number can be found which represents financial performance remains to be seen.

Increasingly, it was felt that financial statements tell only part of the story of corporate performance, with many companies now relying more on intangible assets such as human innovation and intellectual capital – which are not normally recognised in the financial statements - to drive future profitability.

IASB board member Gary Kaburek noted that the IASB can’t exist in isolation, and needs to engage in the wider debate.

Speakers: Stefano Zambon, University of Ferrara; Andrew Buchanan, BDO; Peter Clark, IASB; Mark Clatworthy, University of Bristol; Gary Kaburek, IASB; Liz Murrall, Investment Association; Filippo Poli, EFRAG; Hugh Shields, IASB and David Wood, ICAS.

PANEL SESSION AT THE EAA

EAA CONGRESS – MAASTRICHT, MAY 2016

As gold sponsor to the EAA, ICAS will be organising a symposium at the EAA entitled ‘What is performance?’ The session will be chaired by Professor Stefano Zambon, University of Ferrara, Italy and member of the ICAS Research Committee, and the panel members are as follows:

- Richard Barker, Professor of Accounting, Said Business School, University of Oxford, UK.
- Hilary Eastman, Director, Head of Global Investor Engagement, PwC, and member of the ICAS Research Committee
- Peter Malmqvist, Chairman, The Swedish Society of Financial Analysts, Sweden
- Deepa Ravel, Project Director, Accounting and Reporting Policy Team, Financial Reporting Council, UK
- Hugh Shields, Executive Technical Director, IASB

The panel will debate the issues around performance, including:

- What does ‘performance’ mean?
- Should performance be defined in the IASB’s conceptual framework? If so, how should this interact with wider corporate reporting initiatives?
- How should performance be reported in the financial statements?
- What measures of performance would meet the needs of investors?
- Are alternative performance measures useful and to what extent should they be regulated?
- How do companies assess and measure performance internally and how does this relate to externally reported performance figures?
- What research is needed in this area?

Deepa will, amongst other things, discuss the implementation of the Strategic Report in the UK and how this has assisted with performance reporting. The FRC guidance on the Strategic Report is available at: https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Guidance-on-the-Strategic-Report.pdf.

ICAS will be publishing a new thought piece on performance at the EAA and this will include topics for a new ICAS call for research.

The symposium will be on Thursday 12 May between 11.00 and 12.30 and if you are attending the EAA we look forward to seeing you there.
SGSSS DTC COLLABORATIVE STUDENTSHIP COMPETITION

ICAS is pleased to announce that Professor John Ferguson, University of St Andrews, in collaboration with ICAS, has been awarded a Collaborative Studentship by the Scottish Graduate School of Social Sciences (SGSSS) DTC. The award will allow for the appointment of a student to undertake a PhD on Business and human rights: An exploration of reporting and assurance practice.

SGSSS will provide the scholarship with ICAS contributing 10% of the funding and providing the following in-kind support:

• Assistance with access to contacts, ICAS members and technical experts for the purposes of the project.
• Assistance with supervision of the project.
• Publication of research (a summary practitioner-based report and professional articles), subject to review processes.
• Dissemination activities to maximise the impact of the project.

If you or someone you know is interested in applying for the scholarship please contact John Ferguson - jf60@st-andrews.ac.uk

ICAS is pleased to consider similar collaborative schemes or joint funding initiatives – please contact the Research Centre with any ideas you have – research@icas.com.

IPAD PRIZE DRAW

Make sure you drop by our exhibition stand at the EAA Congress and enter our 2016 prize draws to win an iPad mini!

Terms and conditions available on request from research@icas.com

COMING SOON

Keep an eye out for our forthcoming publications

Balancing the board: Directors’ skills and diversity
Christine Mallin, University of East Anglia and Hisham Farag, University of Birmingham
In recent years there has been an increasing focus on the diversity of corporate boards. But diversity of boards is about more than just gender or nationality; it is about directors’ skills, qualifications and experience. How diverse are the boards of UK listed companies and is a diverse board a more effective board? This report seeks to address these questions by investigating directors’ skills and characteristics across UK listed companies, constructing a comprehensive board diversity index for the FTSE all share index and investigating the relationship between board diversity and performance over the period 2004-2013.
ICAS SEeks ACADEMICS TO JOIN ITS TECHNICAL COMMITTEES

Are you an academic with an interest in policy and developments in the profession? Would you be interested in serving as a member on one of the ICAS Technical Committees?

We recognise the benefit academics can bring to our Committees due to knowledge of existing research, ideas for future projects and the challenge and rigour brought to projects/responses. We are also keen to ensure that our Research and Technical Committees work together to promote evidence-based policy making and believe that having academics on our Technical Committees, as well as the Research Committee, will assist with this objective.

We are looking for academics with an interest in and experience of undertaking policy-relevant research. The role is a voluntary role but travel and hotel expenses are reimbursed. You do not have to be a member of ICAS but should be interested in developing and contributing to policy-relevant thought leadership projects and contributing to ICAS responses to consultations in the respective area.

We currently have spaces for academic members on the following Technical Committees at ICAS:
- Business Policy Committee (covers areas such as corporate governance, laws and regulations, SME funding)
- Charities Committee
- Corporate Reporting Committee
- Pensions Committee
- Sustainability Committee
- Tax Committee

If you would be interested in applying to join one of the above Committees please email a CV with covering letter to Michelle Crickett, Director of Research (research@icas.com), explaining:
- which Committee you are interested in;
- why you would like to join the Committee;
- what you would contribute to the Committee; and
- why you should be selected.

If you would like any further information please contact research@icas.com.

A GUIDE FOR PHD STUDENTS 2016
ACCOUNTANCY AND FINANCE RESEARCH STUDY IN SCOTTISH UNIVERSITIES

The 2016 edition of this guide can now be downloaded from the website - icas.com/research. The guide is produced by ICAS to assist potential PhD students to identify a supervisor in a Scottish university whose research interests are closest to the students’ intended field of study.

CALL FOR PAPERS

The AAAJ has announced a special issue on languages and translation in accounting. The guest editors are Lisa Evans, Stirling University and Rania Kamla, Heriot Watt University. Submissions are encouraged that address topics relating to language, culture and translation in accounting, auditing and accountability. The deadline for submissions is 30 June 2017.

For more details see emeraldgrouppublishing.com or contact Lisa or Rania (lisa.evans@stir.ac.uk; r.kamla@hw.ac.uk).
PRINCIPLES NOT RULES
10 years on – where are we now?
2 June, London, 8-10am

ICAS will host a discussion event on 2 June 2016 to mark 10 years since the publication of the original Principles not Rules: A question of judgement paper.

The event will consider whether reporting standards have become more principles-based or more rules-based in the last decade, what the influencing factors have been and continue to be, and the extent to which this is still a relevant debate for financial and broader corporate reporting going forward.

Confirmed speakers and panel members include:

• Patrick de Cambourg, Président, Autorité des Normes Comptables (ANC – The French standard-setting authority)
• Jane Fuller, Co-Director of the Centre for the Study of Financial Innovation and Director of Fuller Analysis. Formerly Financial Editor, Head of the Companies and Markets Section, Financial Times.
• Hans Hoogervorst, Chairman, IASB
• Veronica Poole, Global IFRS Leader and UK National Head of Accounting and Corporate Reporting, Deloitte
• Jon Symonds, Independent Non-Executive Director, HSBC Holdings plc and Chairman, HSBC Bank plc
• David Wood, Executive Director, Technical Policy, ICAS

If you are interested in attending please email accountingandauditing@icas.com to register an interest.

ICAS Foundation – 2016 bursaries launched

Too few young people from Scotland’s most deprived communities are entering the accountancy profession. The ICAS Foundation has already awarded 60 bursaries of up to £10,000 each (£2,500 per annum), providing much needed financial support, to such students who wish to obtain a university degree in accountancy or finance.

Applications for 2016 bursaries are now being accepted for students starting university in September 2016.

In addition to a financial bursary, each student will also have the support of a mentor. The mentors are all CAs and will use their experience, in a facilitative manner, to support the career exploration and determination of the student and help them take their first steps into a professional career.

To help meet various financial pressures throughout students’ academic careers, the ICAS Foundation also has a small number of grants available to those already studying accountancy and finance.

For further information on eligibility for bursaries and grants please visiticasfoundation.org.uk.

You can make a difference by donating to the Foundation. Donations can be made online aticasfoundation.org.uk

For all other enquiries on the ICAS Foundation please email enquiries@icasfoundation.org.uk

Together we can make a difference.

ICAS Foundation – 2016 bursaries launched

The ICAS Foundation is a registered Scottish charity: No SC034836
THE POWER OF ONE

At the ICAS Conference in November 2015, ICAS launched its business ethics initiative, ‘The Power of One’.

ICAS called on every CA to place ethical leadership at the heart of their professional responsibilities, so as to shape the culture and values of their organisations, to help re-establish ethics at the core of business practices and to rebuild public trust in business.

CEO Anton Colella said at the launch:

Regulators, rules and codes of conduct can only achieve so much. For business to restore its reputation in the eyes of the public, we need leaders at every level, to stand up and be counted. Today we call on every one of our 21,000 Chartered Accountants around the world to embrace ‘The Power of One’. That means taking personal responsibility and doing the right thing, especially when they encounter dubious or unethical behaviour.

Ethics and integrity are fundamental not only to an individual’s reputation, but also to that of the organisations in which CAs work, the profession and to the business community generally. Each CA has personal responsibility for maintaining the highest standards of ethical leadership throughout their career by upholding the five fundamental ethics principles within the ICAS Code of Ethics – integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. In turn, ICAS recognises the power of every individual CA – ‘The Power of One’ – to influence those around them.

ICAS believes that, no matter the career stage or level of seniority, every CA can have a strong role in shaping the culture and values of the organisations in which they work.

‘The Power of One’ initiative aims to provide support to members with regard to ethical leadership by furnishing them with new resources, including a series of papers on related themes.

At the launch, ICAS published the first of these resources, each of which is discussed in more detail below:

- The first two papers in ‘The Power of One’ series – Personal responsibility and ethical leadership and Moral courage
- A discussion paper - The Five Fundamental Ethics Principles: Time for Evaluation?
- An ethical decision making framework

PERSONAL RESPONSIBILITY AND ETHICAL LEADERSHIP

‘The Power of One’ motif highlights the role of the individual. This paper, Personal responsibility and ethical leadership, explores further the ICAS view that every individual CA must take ‘personal responsibility’ for living the ethical principles of their professional Institute throughout their career.

CAs can be found in all walks of life, business and society, and need to take personal responsibility for the important role they have to play. Corporate values often have ethical connotations, but, it is the individuals working within organisations who ultimately determine whether or not the ethical values which an organisation seeks to emulate are actually realised – it is the behaviour of the individuals within organisations which is of fundamental importance.

This paper submits that CAs need to be their own leaders in ethical behaviour in order to meet their professional obligations. Individuals, and particularly CAs, must have the confidence to speak out and influence the culture of organisations in which they work, to ensure that organisations interact with all their stakeholder groups in an ethical manner.

MORAL COURAGE

CAs are encouraged to champion the ICAS ethical values and lead in instilling these within the organisations in which they work. However, in many situations, ‘doing the right thing’ will not be easy and CAs will need ‘moral courage’ to ensure the highest standards of ethical behaviour are upheld.

However, if CAs live the ICAS ethical values, using them not only to guide their own actions every day, but also using them to inspire others’ behaviour, they can be influential.

This paper, Moral courage, recognises that it is not always easy to do ‘the right thing’, that ethical leadership requires moral courage, and provides some practical advice to CAs should they encounter an ethical dilemma.

THE FIVE FUNDAMENTAL ETHICS PRINCIPLES: TIME FOR EVALUATION?

The ICAS Code of Ethics which is substantially based on the International Ethics Standards Board (IESBA) Code establishes the five fundamental principles
of professional ethics for all professional accountants:

• Integrity
• Objectivity
• Professional competence and due care
• Confidentiality
• Professional behaviour

As part of its remit to promote ethics and integrity in business and the profession, the ICAS Ethics Committee carried out a review of all of the fundamental ethics principles to try to ensure that they clearly describe what they believe is required of each individual professional accountant in terms of their ethical behaviour in today’s world.

Recognising that doing the right thing is not always easy, or without personal sacrifice, this discussion paper proposes that a new, separate principle of ‘moral courage’ should be added to the five existing ethics principles.

It also proposes a greater focus on personal responsibility, ethical leadership and public interest responsibilities within the individual principles; highlights the need for ‘ethical judgements’; and adopts the International Ethics Standards Board for Accountants’ recent proposals relating to the principle of professional behaviour.

ETHICAL DECISION MAKING FRAMEWORK

ICAS recognises that ethical decision making can be difficult. The ethical decision making framework provides support to members facing ethical dilemmas. It includes a series of suggested steps to follow, reflective questions to ask, as well as links to useful resources and guidance, to help members through the ethical decision making process.

These resources as well as further information on ‘The Power of One’ initiative is available via icas.com – search ‘The Power of One’.

A PROFESSIONAL JUDGEMENT FRAMEWORK FOR FINANCIAL REPORTING DECISION MAKING

Confidence in the profession and in principles-based standards requires us to demonstrate collectively that, as professionals, we are capable of making sound judgements. I believe that this professional judgement framework is vital for the future of the profession.

Sir David Tweedie, former Chair of the IASB and ICAS President 2012

ICAS originally published A professional judgement framework for financial reporting in 2012. It was primarily targeted at accountants (both preparers and auditors) determining the appropriate accounting treatment for particular transactions.

In April 2016 ICAS will publish a new edition of the framework. The framework has been broadened to make it more universally applicable to decision makers involved in financial reporting, whether accountants or non-accountants, in the private or not-for-profit sectors. It also includes a new section on audit committees and further context on ethical decision making.

Professional judgement is a key skill for preparers, auditors, audit committee members and regulators of financial statements, especially under a principles-based accounting regime. However, making a judgement can be difficult and there is not necessarily one correct answer.

The framework identifies core principles and provides a structured process to guide decision makers through how to make, assess and document significant judgements. It targets significant judgements across narrative and financial reporting including accounting treatment, materiality, estimates and disclosures.

This professional judgement framework applies internationally to different sizes and types of organisations, whether listed or unlisted, across the private and not-for-profit sectors.

The professional judgement framework identifies principles for:

• preparers making and documenting the judgement
• auditors challenging the judgement
• audit committees considering, reviewing and concluding on the judgement
• regulators assessing the judgement.

The 2012 professional judgement framework is currently available on the ICAS website and will be updated with the new edition shortly. Visit icas.com and search for professional judgement framework.
ICAS RESEARCH COMMITTEE

The ICAS Research Committee drives the strategy of the ICAS Research Centre. Working in association with other ICAS Technical Committees, it identifies research priorities, grants research funding, provides a monitoring and support role for projects and maximises the resultant impact of ICAS research.

We are pleased to announce that Mario Abela, Head of Corporate Reporting at Gather, joined the ICAS Research Committee in September 2015.

Mario leads Gather’s corporate reporting service providing advice to FTSE 350 companies, undertaking research and developing thought leadership. Mario is a Fellow of both CIMA and CPA Australia.

He is a member of the Technical Working Group of the Climate Disclosure Standards Board and the SME Implementation Group of the IASB.

Mario is also a member of the editorial board of *Accounting in Europe*. Mario previously held positions as Leader of Research and Development at the International Federation of Accountants and Research Director at EFRAG.

We are pleased to announce that Elisabeth Dedman, Chair of the Accounting Division at Nottingham University Business School, joined the ICAS Research Committee in November 2015.

Prior to taking up the role at Nottingham in 2013, she held academic posts at several universities, including Manchester Business School and Warwick Business School. She gained her PhD from Lancaster University in 2002.

Elisabeth’s research interests are varied, incorporating corporate governance, earnings quality, voluntary disclosure, and corporate payout policies. She was until recently Associate Editor of *Accounting and Business Research* and remains on the editorial board of this journal, as well as on that of the *British Journal of Management*.

Elisabeth regularly presents her research at national and international conferences and publishes in high quality journals. At Nottingham, she convenes a postgraduate module on Advanced Issues in Financial Reporting and supervises a growing cohort of PhD students.
We are pleased to announce that Dimitris Andriosopoulos, Senior Lecturer in Accounting and Finance at Strathclyde Business School, joined the ICAS Research Committee in November 2015.

Dimitris holds a PhD in Finance from Cass Business School. He has published in peer reviewed journals such as the *Journal of Banking and Finance*, *Journal of Empirical Finance*, and the *Review of Quantitative Finance and Accounting* among others. His research interests are in the areas of corporate finance, corporate governance, disclosure, mergers and acquisitions, and banking.

Dimitris has been invited to act as a guest editor for the *International Review of Financial Analysis* and as Scientific Committee member for several conferences. He also serves as research assessor for the Carnegie Trust for the Universities of Scotland and as a reviewer for a number of scientific journals. Dimitris is the recipient of large research grants funded by Innovate UK and BiP Solutions (for a Knowledge Transfer Partnership) and by the French Chamber of Commerce (for an independent research project). Dimitris is also the convenor for the Accounting and Finance Research Seminars of Strathclyde Business School and is a senior partner of Symmetria ltd, a consultancy and brokerage firm.

Mario, Elisabeth and Dimitris join our existing Research Committee members, who are:

- Allister Wilson (Convener) - Partner, Ernst & Young LLP
- Michelle Crickett (Secretary) - Director of Research, ICAS
- Riona Bell - formerly Director of Finance and Corporate Resources, Scottish Further and Higher Education Funding Council
- Andrew Cotton - formerly Company Secretary and Director of Corporate Development, Macfarlane Group plc
- Louise Crawford - Professor of Accountancy at Aberdeen Business School, Robert Gordon University
- Mark Clatworthy - Professor of Accounting in the School of Economics, Finance and Management, University of Bristol
- Hilary Eastman - Director of Investor Engagement, PwC
- Lisa Evans - Professor of Accounting in the Division of Accounting and Finance, University of Stirling
- Eugene Mitchell - Strategic lead for accountancy, audit and tax governance, HMRC’s Large Business directorate
- Liz Murrall - Director of Stewardship and Reporting, Investment Association
- Julia Smith - Reader in Accounting & Finance, Strathclyde Business School, University of Strathclyde
- Stefano Zambon - Chair of Accounting and Business Economics, University of Ferrara, Italy
SAVE THE DATE

BAFA Accounting Education Conference 2016
4-6 May – Belfast
w: www.bafa.ac.uk
e: joan.ballantine@ulster.ac.uk

BAFA Auditing & Assurance Conference 2016
5-6 May – Said Business School, Oxford
w. www.bafa.ac.uk
e: i.g.basioudis@aston.ac.uk

EAA Doctoral Colloquium 2016
7-13 May – Vaals
w: www.eaacongress.org
e: coopman@eiasm.be

EAA Annual Congress 2016
11-13 May – Maastricht
w: www.eaacongress.org
e: coopman@eiasm.be

BAFA CDAF Conference 2016
19-20 May 2016 – Liverpool Hilton
w: www.bafa.ac.uk
e: rod.kelly@bcu.ac.uk

BAFA Scottish Doctoral Colloquium in Accounting & Finance 2016
6 June – Heriot-Watt University, Edinburgh
w. www.bafa.ac.uk
e: C.Pong@hw.ac.uk

Scottish Graduate School of Social Science Summer School 2016
7-9 June – University of Edinburgh
w: www.socsciscotland.ac.uk
e: events@socsciscotland.ac.uk

30 June – 1 July – University of Bristol
w: www.bafa.ac.uk
e: michaeljohn.jones@bristol.ac.uk

BAFA Scottish Area Group Doctoral Symposium 2016
29 August – University of Strathclyde, Glasgow
w. www.bafa.ac.uk
e: patrick.mccolgan@strath.ac.uk

BAFA Scottish Area Group Conference 2016
30 August – University of Strathclyde, Glasgow
w. www.bafa.ac.uk
e: patrick.mccolgan@strath.ac.uk

EUFIN Conference 2016
1-2 September – University of Fribourg, Switzerland
e: Helga.kahr@unifr.ch

Tax Research Network Conference 2016
1-2 September – Roehampton University, London
w: www.trn.org.uk
e: rebecca.boden@roehampton.ac.uk

BAFA CPAF Conference 2016
5-6 September – Aston University, Birmingham
w: www.bafa.ac.uk
e: I.Tonks@bath.ac.uk

IASB Research Forum 2016
15 October–Waterloo, Ontario, Canada
W: www.ifrs.org
E: research@ifrs.org

EAA Annual Congress 2017
10-12 May – Valencia
w: www.eaa-online.org
e: coopman@eiasm.be

EAA Annual Congress 2018
31 May -1 June – Milan
w: www.eaa-online.org
e: coopman@eiasm.be