WHAT ROLE SHOULD AUDITORS HAVE IN BANKING SUPERVISION?
HOW DO ACCOUNTANTS FACE AN ETHICAL DILEMMA?
IS PENSION RISK DISCLOSURE ADEQUATE?
IS IFRS LOST IN TRANSLATION?
Dear colleague

Welcome to our latest newsletter. We sure are looking forward to putting the winter behind us!

It has been hectic in the ICAS Research Department since our Autumn newsletter - we have published seven new topical reports, issued a call for research on the charity sector, held another successful research development event for early career academics and also appointed a new Convener of our Research Committee. Yet again we are asking ourselves how can it be time for the BAFA and EAA conferences already! If you will be attending these two conferences, we look forward to catching up with you then - please drop by our stand and say hello. You can also have a look at our new research publications and find out more about our research funding opportunities and enter our prize draw to win a bottle of ICAS whisky! If you are not attending these conferences, please feel free to drop us an email with any enquiries - we are always happy to provide informal feedback on any policy-relevant project ideas.

Our recent reports (see pages 3-13) cover a wide range of topical issues which we hope will be useful in the ongoing policy debates on financial reporting and assurance. It is definitely a time for change within the profession and we believe that good quality, independent research should be able to influence these debates. As always, our reports are free to download from our website.

We hope you enjoy this edition of our Newsletter.

The ICAS Research Team
Pension risk disclosures by FTSE 100 companies

Christopher O’Brien, Margaret Woods and Mark Billings

There is an increasing recognition that annual reports need to better disclose the risks facing a company. Provision of a defined benefit scheme poses one of these risks as companies take on uncertain long term obligations to make future pension payments. This research report addresses the issue of how companies should report this risk so that stakeholders can understand a company’s exposure to pension risk.

The aim of the study was to gain a better understanding of current disclosure practice in relation to pension scheme risks, and use that knowledge to provide informed comment upon the recent IASB exposure draft on a number of proposed amendments to IAS 19. The project was based on a survey of the annual reports of FTSE 100 companies concerning the risks associated with their provision of a defined benefit pension scheme. The analysis covers all 88 companies in the FTSE 100 on 31st December 2009 which operate a defined benefit scheme.

As the total pension liabilities of FTSE 100 companies reach £409 billion with deficits of over £53 billion, the report suggests that investors in FTSE 100 companies could face further pension surprises as companies fail to provide information on the risks in their pension schemes.

Pension risk is highlighted when a fund is in deficit. The main reasons behind a shortfall are market-driven asset price volatility, increased life expectancy of individuals leading to increased liabilities, and a disparity between the duration of assets in relation to the liability. There is also a potential cash flow risk to the company if it has to provide funds to reduce a deficit in its pension scheme. The liability is valued according to a number of key actuarial assumptions – including future price inflation rates, discount rate, salary inflation and life expectancy.

We found that, critically, only ten of the FTSE 100 companies disclosed the sensitivities of their final salary pension schemes’ liabilities to all four actuarial assumptions, as recommended in the UK Accounting Standards Board’s guidelines. In fact, 35 companies disclosed no sensitivities to changes in these actuarial assumptions.

By failing to disclose risks associated with pension schemes in their annual reports, FTSE 100 companies are not alerting users to the potential future changes in surpluses or deficits. This creates difficulty for investors and shareholders who want to understand the overall scale and timing of the potential pension risks faced by companies. The shroud of secrecy around pension risks needs to be lifted in order to improve the quality of information to investors and to help understand future cash flow risks to companies.

The analysis also revealed that pulling together the narrative information on a company’s pension scheme is difficult because it is scattered throughout the annual report and not always linked to the related quantitative disclosures. This can make comparability difficult.

We welcome the recommendations in the IAS 19 exposure draft in relation to disclosure of risk but suggest that the recommendations could go further and recommend that sensitivity to the key variables should be standardised via a tabular format to ensure that readers are alerted to the key potential risks. This type of analysis may also be useful to pension scheme trustees.

We also note that the exposure draft proposals do not require the provision of any additional detail on asset allocations, despite the fact that this may assist in understanding the level of risk exposure from different investment strategies and recommend that this is considered further.

Although the additional disclosures recommended in this report will not solve the more general ‘pension problem’ it is hoped that they will at least highlight some of the risks and key assumptions impacting on companies operating defined benefit pension schemes.

Download this report at: www.icas.org.uk/obrien
Public Private Partnership financiers’ perceptions of risks
Istemi Demirag, Iqbal Khadaroo, Pamela Stapleton and Caral Stevenson

Public private partnerships (PPP) are an established model for governments internationally to provide infrastructure-based services. They involve a clearly defined project financed by the private sector, which shares the associated risks and rewards with the public sector. Typically the public sector procurer will sign a contract with a special purpose vehicle (SPV) which subcontracts the finance, design, construction, maintenance and soft services to companies that are often related to its shareholders. Our study focuses mainly on the financiers in this network of organisations, and examines their perceptions of the risks involved in the investment of equity and senior debt in PPP.

The scale of projects involving private finance is significant and PPP is used widely across the public sector. PPP spending currently represents some 10% of total UK government investment. Although the new coalition government is expected to significantly curtail investment in infrastructure projects, it is likely that it will favour private sector involvement in any such future projects.

This project involved three strands of research: a review of the existing literature; a survey of providers of equity, senior debt and bond finance including follow up interviews; and six mini case studies to examine perceptions of risk in the public sector. The study investigates how financiers perceive the risks associated with PPP; how financiers manage these risks; how changes in the PPP industry, including the impact of the credit crunch, have affected financiers’ perceptions of risks; and how financiers’ perceptions of risks differ from those of their public sector partners.

A complex network of organisations surrounds the two main partners to a PPP contract – the procurer and the SPV. Within this network, risk passes from the SPV by means of legal contracts to subcontractors, who are responsible for construction and operations. Risks may be allocated to parties who cannot control them or do not wish to hold them, in which case they will be mitigated by various means, including hedges and swaps and frequently insurance. Such risks are thus dispersed around the private sector, beyond the immediate PPP network. The intention with PPP is that risks should be held by the party best able to manage them, and that the transfer of risk is priced into any PPP contract, yet one of the key findings of this research is that it is possible to transfer risk back to the public sector after contracts have been settled. The impact of this on value for money to the public sector and ultimately taxpayers needs to be assessed.

Senior debt holders have a powerful position within this network. Subcontractors must provide financial and performance supports, which are contractual arrangements designed essentially to protect the interests of senior debt providers against poor subcontractor performance or contractor failure. Crucially, debt servicing costs are covered by these supports during any time over-runs on the target completion dates for a project. This important protection for the senior debt holders enhances the project’s credit rating.

We explain in the report the complex network used in PPP schemes, one which may not be understood by the general public and those who are not involved in PPP, and therefore contributes to an understanding of how PPP operates in practice. While the private sector is often described in relation to PPP as if it were a single entity, in practice, risks transferred from the public sector are dispersed amongst multiple organisations both within an immediate PPP network and beyond. This dispersion of risks adds cost, raising questions about value for money for the procurer. A clear understanding of these issues, especially the balance between risk transfer and costs, is essential to inform future policy development.

The recommendations arising from the research are as follows:

• A macro-level review of the PPP policy should be undertaken.

• A macro-level review should focus on the accuracy of risk pricing and the practice of risk transfer.

• A macro-level review should also consider how government can reduce the costs of mitigating its exposure to risks, such as inflation and interest rate movements.

• Public and private sector partners need to consider how high bidding costs can be reduced to encourage new entrants to the PPP market and more bidders for individual projects.

• Procurers should keep under review their policies on the use of third party advice and its value for money.

• Greater transparency of contract details is needed to enable scrutiny of PPP both at policy and individual project level.

Download this report at: www.icas.org.uk/demirag
New reports published

Implementing fair value accounting in the agricultural sector
Charles Elad and Kathleen Herbohn
In February 2001, the then International Accounting Standards Committee broke new ground by issuing IAS 41, the first-ever international financial reporting standard on agricultural activity.

IAS 41 is highly controversial, not only because it introduced a fully fledged fair value accounting model for biological assets, but also because it heralds one of the most comprehensive and far-reaching departures from historical cost accounting to date, thus provoking a broad range of theoretical and practical problems that might affect its widespread adoption. Essentially, IAS 41 requires that biological assets be valued by reference to market prices at the end of each financial year. Changes in the fair value of biological assets, and any resultant holding gains or losses, are recognised in income for the period in which the changes occur.

Our study involved an analysis of measurement and disclosure practices in the annual reports of entities that are required by law to adopt IAS 41 in Australia, France, and the UK, and a questionnaire survey designed to ascertain the perceptions of valuation consultants, accountants, and auditors of agricultural businesses regarding the implementation of the standard.

We investigated the extent to which IAS 41 has fostered the international comparability of corporate farm accounting practices because the standard: (i) allows companies to use historical cost accounting if they rebut the presumption that fair value can be determined reliably, and (ii) allows companies to use a broad range of surrogates for fair value, such as net present value, sector benchmarks, recent market transaction price, or market price for similar assets.

In general, the study reveals that there is strong opposition to IAS 41 in plantation and forestry companies, and that there are systematic national differences in the accounting policy choices of agricultural entities that have adopted the standard.

We found that agricultural entities in all three countries are using a variety of methods under IAS 41, and this constitutes a major obstacle to comparability and uniformity. For example, nearly 50 per cent of the French companies rebut the presumption in IAS 41 that fair values can be determined with reliability, thus justifying the continued use of historical cost and circumventing the fair valuation requirement of the standard. Furthermore, French companies disclose less than 40 per cent of the items of information required under IAS 41.

By contrast, the present value of future net cash flows is the most commonly used method in the UK and Australia, often involving independent external valuers, notably in the forestry and plantation agriculture sectors. In addition, Australian companies disclose more than 60 per cent of the required items while UK companies provide only 50 per cent of the mandatory disclosures.

We also found that there appear to be international differences in the attitude of auditors towards IAS 41. British and Australian auditors appear to be more inclined to issue a qualified audit opinion for non-compliance with the standard than their French counterparts.

A number of cases were identified where open disagreements over the correct application of IAS 41 occurred between auditors, company directors, and regulators.

Our questionnaire survey results highlight the opposition to IAS 41 with a high level of agreement among respondents that the costs of measuring and reporting biological assets at fair value outweigh the benefits.

Far from being an accounting panacea, the mark-to-market model enunciated in IAS 41 has some ideological overtones. For example, European farmers receive substantial subsidies under the Common Agricultural Policy which inevitably distort market prices. This means that many biological assets in Europe will be valued by reference to artificial and highly subsidised or politically mediated market prices.

We believe there is a need for the IASB to revisit IAS 41, not only because it has failed to change farm accounting practice, but also because it creates an illusion of comparability, despite the range of options allowed under the standard.

Download this report at: www.icas.org.uk/elad
The contrasting role of auditors in UK and Swiss banking supervision

Ian Dewing and Peter Russell

The global financial crisis has fundamentally called into question existing systems of banking supervision. Governments, banks, regulators and auditors have each been criticised for the roles they played in the run-up to the crisis.

In the UK, the role of auditors in banking supervision is limited, with the supervisor, the Financial Services Authority, undertaking direct inspections of banks. In contrast, auditors in Switzerland have a significant, direct role in banking supervision.

Our research contrasted the role played by auditors in UK and Swiss banking supervision, in the context of debates and reforms following the financial crisis. We undertook interviews with Swiss partners in accountancy firms responsible for banking engagements, with Swiss banking associations, and with financial and accounting regulators.

In this article, we focus on the potential implications of the Swiss system for banking supervision in the UK. We outline Swiss institutional arrangements for banking supervision, and oversight of the accounting profession.

Prudential supervision in Switzerland

The Swiss system of banking supervision can be traced back to the Banking Act 1934 which gave auditors a role in regulating banks.

It can be characterised as a ‘two-tier’, ‘indirect’ or ‘dualistic’ system.

This is because, in addition to statutory audit and reporting to shareholders under Swiss company law, further audits and reporting are carried out under Swiss banking law on behalf of the supervisor, the Swiss Financial Market Supervisory Authority (FINMA).

External auditors therefore have a dual role, reporting to shareholders on the one hand and to the supervisor on the other.

Because of the relative size and impact on the economy of the two biggest Swiss banks, UBS and Credit Suisse, the supervisor also undertakes direct inspections of these major international banks.

Reports for the supervisor must be carried out according to two Circulars on Audit and Audit Reports issued by the supervisor. The Circulars specify in detail the nature, subject matter and reporting format of the audit work undertaken on behalf of the supervisor.

Audits are conducted using a risk-based approach following a risk analysis whereby the auditors draw up a risk profile of the individual bank.

The board of the bank is formally required to meet the lead auditor to consider the auditor’s reports before the reports are submitted to the supervisor.

In other jurisdictions, such as the UK, similar ‘regulatory’ information would normally be provided by the bank and is generally not subject to independent audit. The Financial Services Authority would typically analyse and form an opinion on the data.

There is therefore a more limited involvement of auditors in UK banking supervision.

Oversight of auditors in Switzerland

How audit firms and partners are regulated also differs between the UK and Switzerland.

The Swiss public oversight body, the Swiss Federal Audit Oversight Authority, is responsible for the registration and monitoring of all individuals and firms wishing to provide statutory audit in Switzerland.

The impetus for the establishment of the body in 2007 was the desire to modernise Swiss company law and to take account of international developments, such as the implementation of the US Sarbanes-Oxley Act.

In common with the UK, inspections are undertaken at both the level of the audit firm and audit engagement, and encompass the review of individual working papers.

There are, however, two important contrasts with arrangements in the UK.

First, special licenses to undertake bank audits are required both for firms and lead auditors. These licenses are issued by the banking supervisor.

Second, the review of working papers for bank audits is undertaken by a specialist team within the banking supervisor. The supervisor also has the power to accompany auditors to the client bank during the period that the audit is being undertaken.

The Swiss banking supervisor and oversight body co-ordinate their activities to avoid duplication of effort.

Therefore, there are important differences in both the role and oversight of bank auditors between Switzerland and the UK.
Implications of the research

In the light of the findings of our research, we identified three implications that are worthy of further investigation in a UK context.

Approval of auditors as banking experts

In Switzerland, in addition to audit firms having to be approved and registered by the Swiss public oversight body, audit firms undertaking bank audits must also be licensed by the Swiss banking regulator.

In a UK context, greater involvement of the supervisor in the review and recognition of both audit firms and lead partners able to undertake the audit of banks may provide a formal opportunity, as a minimum, to help improve knowledge of, and communication between, audit firms/partners and the supervisor.

On-site observation of banking audit engagements

In Switzerland, the banking supervisor has the power to accompany audit firms during the period auditors are undertaking work at banks in an observational capacity.

This provides a further opportunity for the supervisor to gain a deeper understanding of the process of audit, including its boundaries and limitations.

Similar powers do not exist in the UK but may provide another opportunity for the supervisor both to liaise with auditors and understand the audit approach adopted by audit firms.

Involvement in review of auditors’ work by the banking supervisor

In Switzerland, responsibility for the inspection of the work of banking auditors is undertaken by a specialist team within the banking supervisor.

In contrast, file reviews of other public interest companies in Switzerland are undertaken by the oversight body.

The Swiss approach facilitates not only the acquisition of specialist banking audit knowledge by a dedicated team at the supervisor, but also benchmarking of the audit approach/performance both between and within audit firms.

In the UK, the Audit Inspection Unit is responsible for undertaking the review of auditors’ work. The creation of a dedicated team within the banking supervisor responsible for the file review of auditors’ work may also enhance knowledge and offer similar benchmarking opportunities.

As is the case in Switzerland, close liaison between the Audit Inspection Unit and the dedicated team of the banking supervisor would be required.

Conclusion

As a result of the financial crisis, the Financial Services Authority (FSA) has initiated a more intense relationship with auditors of banks.

This includes the requirement for supervisors of ‘high-impact’ banks to meet auditors at least annually.

In addition, the Coalition Government has announced its intention to establish a successor supervisory body to the FSA body under the auspices of the Bank of England. The FSA and the Bank of England have also issued for consultation a code of practice designed to enhance the dialogue between auditors and supervisors.

With both institutional reform, and ongoing debate about the role of auditors during and after the financial crisis, it is a good time to consider features of the Swiss system of banking supervision that may be of relevance to the UK.

Download this report at: www.icas.org.uk/dewingrussell
The darkening glass: Issues for translation of IFRS
Rachel Baskerville and Lisa Evans

The French have a saying: ‘Traduire, c’est trahir un peu’ (‘to translate is to betray a little’). Is this as true of financial reporting standards as it is of poetry and prose?

A single global accounting language must surely be the aim of the accounting profession in its bid to support the global economy and markets. However, international application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) may not be sufficient to ensure equivalent quality of financial reporting.

Among the reasons for this are: the remaining influence of local traditions and cultures, including legal and political systems; financial markets; corporate governance arrangements; and auditing and enforcement of regulation. An additional problem is the translation of IFRS from the original English into other languages.

We address the problem of translation in our report recently published by ICAS. Our report takes a European perspective to:

• identify specific issues which arise in the translation of accounting terminology;
• explore the implications of these issues; and
• make recommendations for stakeholders in IFRS adoption and translation.

IFRS for textbooks on financial reporting

The report summarises the findings from a survey of authors and translators of textbooks on financial reporting into European languages other than English. Textbook authors may, in theory, base their material on available translations of IFRS, but in practice often rely either completely or partially on the original English version. Textbooks play an important role in accounting education, and accounting educators are familiar with the problems of communicating concepts which have no equivalent in their own language and culture. Textbook authors and translators are therefore an informative survey group.

Sixty-seven respondents, as native speakers of 23 languages, offered their views (a response rate of 23 per cent). Their responses reflect a considerable degree of expertise and experience and provide extensive narratives for analysis. Here we provide a summary of key findings, but a more comprehensive review and analysis is offered in the full report.

Translation problems

Findings suggest that the majority of translation problems experienced by our respondents relate to four areas, as set out below.

Non-equivalence of terminology - there was general support for claims made in prior research that exact equivalence cannot be achieved in translation. This is because accounting concepts in any language are part of that language community’s accounting culture. Where a concept does not form part of a culture, its translation is not meaningful, no matter what words are chosen. Our respondents suggested, for example, that ‘prudence’ in IFRS is different from the Italian concept of ‘prudence’, and that Finnish accounting tradition had no concept equivalent to ‘materiality’.

Even where (near-)equivalent translations are available, the terms are likely to be interpreted and operationalised differently. A number of respondents commented on a lack of consensus on translation of terms such as ‘entity’ and ‘material’. One respondent suggested that such difficulties were increased by the IASB’s principles-based approach. Related to this was concern over translations of the term ‘present fairly’. One respondent noted: ‘as long as the English meaning is somewhat unclear as well, even to English speaking experts, it represents a great challenge’.

Syntax and grammar - the fact that different languages construct sentences in different ways was identified as a further problem. For example, English has many more words than most other European languages, but some other languages have more complex or flexible grammatical structures than English. This means that subtleties may be expressed in different ways, and that literal translation is usually not possible. The complexity of some of the constructs in extant IAS/IFRS was considered an additional problem. This led to a demand for simpler, shorter and clearer sentences in the original.

Legal framework - the IFRS regime derives from an accounting tradition grounded in common law legal tradition. Most European countries, however, have a Roman law/code law legal system. The
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Differences between the legal systems are relevant, among other things, because accounting rules were traditionally incorporated in legislation in many EU countries, and IFRS are now also implemented in law through the EU Regulation. Differences between common law and code law traditions are identified by some respondents as contributing factors to translation difficulties. For example, concepts such as ‘substance over form’ are hard to assimilate in some code law countries, and terminology can refer to different degrees of commitment in different legal systems and their languages.

Underlying cultural differences - cultural differences appear to be among the strongest causes of accounting differences, and may be the most difficult to overcome. Many respondents are acutely aware of the problems created by differences in (accounting) cultures and identify the cultural embeddedness of concepts such as ‘prudence’, ‘reasonable’ and ‘material’ as underlying the problems of translation. In particular, literal translations do not always make sense if one does not appreciate the origin of the respective accounting concepts. Knowing and understanding the original wording of accounting concepts and foreign languages are essential in appropriate translations.

Solutions adopted and recommendations made by respondents

Solutions to translation problems were also explored with respondents. These included practical technical solutions, for example explanatory notes, paraphrasing, or retaining the English original term untranslated. However, some more fundamental issues were also addressed. In particular, the importance of the translator’s familiarity with the accounting cultures of both source and target language was seen as fundamental.

Other comments relate to the role of the standard setter, for example with regard to drafting in a less complex language that lends itself to easier translation. One respondent put it bluntly: “Terrible English will be difficult to translate into good French or German”.

Other findings

We also found that specific problems encountered and solutions preferred differ between language families. For example, closely related languages share terminology with common roots. This gives rise to the problem of ‘faux amis’ (‘false friends’), where words are similar, but do not mean the same thing. This phenomenon frequently leads to mistranslation. For example, the words ‘substance’ and ‘forme’ exist in French but are not equivalent to English ‘substance’ and ‘form’ (as in ‘substance over form’).

On the other hand, where languages are less related, they are likely to differ not only in terminology, but also in syntax and grammar. More significant change to the original sentence structures often occurs, therefore, in translation. Sentences may also become more complex in translation because additional explanations and paraphrasing are adopted by translators to deal with a lack of equivalent terminology.

On a positive note, translation was not seen as impossible by our respondents. In many cases, they did not consider problems identified in prior literature as problematic for themselves. Where problems arise, a number of strategies and solutions are adopted to reduce their impact.

However, some of the solutions adopted may give rise to concerns for standard setters and regulators, for example, where perceived redundancies in the original English are omitted, where words are added to provide explanation or where sentence structures have to be changed because of the demands of the target language. This suggests that translators always have to interpret the original meaning, and that there is a risk that they do not capture the meaning intended by the standard setter.

Recommendations and implications

Our findings lead to six recommendations and policy implications:

1. Translation problems may be greatly reduced through consideration of potential difficulties when drafting standards.
2. There may potentially be a greater difficulty in translating accounting principles rather than more detailed and explicit rules.
3. Awareness of the limits of translation is required to avoid misunderstanding. For example, disagreement on points of policy and practice may arise from different interpretations.
4. A subtle shift in meaning almost always occurs in translation, and some differences in interpretation will always remain.
5. Translators have to have excellent knowledge of both source and target languages but also of both accounting subcultures.
6. Accounting educators must be sensitive to the difficulties which arise for students in understanding concepts that are not part of their own accounting cultures.

It is hoped this study will go some way towards increasing awareness of translation problems and their implications among accounting standard-setters, regulators and users and preparers of accounting information. The participation in the survey by translators and academics involved in the creation of textbooks was greatly valued and appreciated.

Download this report at: [www.icas.org.uk/baskervilleevans](http://www.icas.org.uk/baskervilleevans)
Women's voices: Work-life balance of female Scottish Chartered Accountants

Catriona Paisey and Sonja Gallhofer

Since the 1970s, the number of women admitted to membership of ICAS has increased rapidly. Now, men and women are admitted in approximately equal numbers, and women’s increased participation in the accountancy profession broadly mirrors that of women’s employment generally. We were interested to find out how participating in the accountancy profession had impacted upon the reality of the lives and work choices of female members of ICAS.

As we were particularly interested in the experiences these women had and the stories they had to tell we asked 14 female accountants at different stages of their careers how they had managed to balance professional work with family life. The interviews were drawn from as wide a range of individuals as possible, in a variety of geographical locations, covering: Big Four and smaller chartered accountancy firms; industry, commerce and the public sector; full-time, part-time and non-workers; and women ranging in age from early 30s to those approaching retirement. The lives and the work choices of the women we interviewed were remarkably different. Below we summarise some key insights we gained from the interviews into the ways these women have attempted to balance professional work with family life.

The women we talked to had different ways of conceptualising work-life balance. Some who worked on a part-time basis viewed ‘work’ and ‘life’ as essentially separate domains: “I’d probably see them as two separate things, and you as an individual have to make them… work together”.

Others who worked full-time viewed work and life more holistically: “I get a lot of my satisfaction out of both my family and my work”.

Interestingly, women with and without family responsibilities all referred to the need to balance work and life, that is: “Being able to do your job but then come away and still be able to have time to do the things that you want to do at night time”.

The major impediments to work-life balance mentioned by the interviewees were the long-hours culture and significant travel. Flexible working arrangements and part-time working were often viewed as a solution to problems of work-life balance: “There is just a much greater understanding, recognition and support for people’s different personal demands outwith the working environment… I would say the larger you are as an organisation, the easier it is to create flexibility”.

From talking to the women we learned that being satisfied with work-life balance did not appear to be associated with any particular set of working arrangements. Some of the highest achieving women in demanding, full-time jobs with accountancy firms, had found a good work-life balance that worked for them, whereas some of the women who had opted for other work arrangements felt less satisfied with their work-life balance. Women working part-time had mixed experiences. Part-time work could be fulfilling where both employee and employer were committed to making the arrangements work, sizing the role to the contracted hours and providing challenging tasks. As one woman put it: “The thing I’ve got to be very disciplined with is my diary… and it’s making sure that I’m not overloading myself. And as my boss says, well I’m completely in control of that… I think communication is very open… it’s a really good relationship”.

However, part-time work was not always fulfilling on these terms, since some women felt that they did not fully fit into the organisation or that their work role was unsatisfactory in that it was below their abilities: “The hours are fantastic for school care. I mean they really are. But that comes at a cost. And the cost is that the work is not very interesting”.

The women we talked to had all made many choices in terms of career but these varied from being definitely-made choices to ones that emerged in a more unplanned manner. Some had made specific choices that had worked for them; others felt that the reality of their lives was that they had not had a real choice in some of their decisions. Commonly-mentioned factors influencing these women’s choices were having children, views of parenting and their value systems. One woman commented: “If I didn’t have children I would probably still be working one hundred and twenty hours wherever I was… but when my children came along I just didn’t want to do it anymore”.

Interestingly, the role played by partners was often a significant factor in whether the women were happy in their choices: “If that person is a supporter of your aspirations then you can fly. If they are not then they will pull you down”.

There was also some indication in the interviews that the economic downturn had restricted some opportunities and was putting some women under pressure.

Overall, the impression we gained from our interviews was that being satisfied with work-life balance was more related to finding roles that were fulfilling on the women’s own terms, such as the women’s inner values, and having domestic circumstances that were supportive, rather than finding the correct distribution of hours between the two
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domains of work and life. Being happy with one’s choices, whatever these might be, was most important for all women we talked to.

An understanding of the above issues is of relevance to the profession and organisations which employ female accountants, as it enables them to develop strategies and put structures in place that can create a working environment in which women would find it less challenging to deal with work-life balance issues. Most importantly, they indicate that a one-size-fits-all approach to address work-life balance issues would not be appropriate, and that successful policies need to be flexible enough to accommodate the different preferences that women have. Arrangements appeared to work effectively where personal and organisational goals were aligned, and where full and frank conversations took place on both sides about roles and expectations. Fostering a workplace culture in which such full and frank conversations can take place is therefore likely to lead to greater satisfaction from both parties in the employment relationship.

For ICAS we believe it is important to provide more tailored career guidance and networking/ training opportunities that reflect the variety of experiences and preferences of the Institute’s female members. Few women felt that ICAS should play the major role in terms of work-life balance issues, believing that these were more appropriately issues for individuals and employers. However, specific suggestions mentioned by interviewees were:

- Providing guidance on wellbeing and workplace health as part of the initial ICAS training and CPD.
- Providing CPD opportunities that were essentially networking events for women to discuss work-life issues.
- Members’ events open to all members to raise awareness of work-life balance issues among both men and women.
- Encouraging employers to advertise high-quality part-time roles.
- Providing assistance to women returners.
- Encouraging employers to open up a dialogue with their employees about the arrangements that would suit both parties.

For us, the abiding impression from interviewing the 14 women was that they were all highly able, professional and dedicated in the many things that they did in their lives. However, while some had fulfilled their potential on their terms, whether in relation to work or family or both, there was evidence that not all women felt satisfied or that they felt that things could be better. Some of the women appeared to ‘have it all’ while others were struggling to ‘juggle their lives’. This research has only begun to explore the reasons for such variability, and further research is necessary in order to explore more fully the reasons for individual wellbeing, or the lack of it.

Download this report at: www.icas.org.uk/gallhoferpaisley
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UK bio-pharma: Innovation, re-invention and capital at risk

Colin Haslam, Pauline Gleadle and Nick Tsitsianis

The recently established UK Centre for Medical Research and Innovation (UKCMRI) is to be located in a purpose built centre for biomedical research in Camden, London. It will be funded by the Medical Research Council, Cancer Research UK, the Wellcome Trust and University College London. The UK Government has identified the consortium behind the newly established Centre for Medical Research and Innovation (UKCMRI) as playing a key role in future economic development. One goal of the UKCMRI will be to store, for access, the rapidly increasing amount of bio-molecular research data that could be used in the future for the development of patient therapies. The business case for the UKCMRI was approved by the UK Government in February 2011 and David Cameron observed that:

"The UK’s science and research sector is world class and one that we can be very proud of. A strong research base is absolutely crucial to help secure long term economic growth, helping to rebalance the economy and creating the jobs of the future, which is why despite some tough spending decisions we have protected its funding."

The UK government already provides significant financial support to the bio-pharma sector in the form of R&D tax credits. The coalition government has targeted the pharmaceutical industry as a key driver of UK economic prosperity and has issued a consultation document ‘patent box’. The key recommendation is to introduce a competitive tax rate of 10 per cent on profits arising from patents. The objective is to encourage big-pharma companies to develop and exploit their intellectual property in the UK.

These plans to promote and provide additional financial support for UK bio-pharma did not stop Pfizer announcing plans to close its state of the art R&D facility at Sandwich in Kent. Pfizer is not alone in downsizing operations GlaxoSmithKline (GSK) and AstraZeneca have also been cutting back their R&D scientific employment base in the UK. The big-pharma business model is under financial stress as patents expire. For example, patent protection on Pfizer’s cholesterol reducing pill Lipitor will run out in 2011. Generic substitutes steal market share, revenues and profits from big-pharma as they fall off a ‘patents cliff’. GSK, AstraZeneca, like their counterparts, are forced to modify their business model to boost shareholder value. In the last decade a key aspect of recalibrating the bio-pharma business model has been to outsource drug development into SME bio-pharma firms to spread development costs and financial investment risk.

In this research report for ICAS we focus on the development of the UK SME bio-pharma sector and the extent to which innovation, reinvention and capital are at risk. Our analysis follows the financial fortunes of bio-pharma firms that have listed on the Alternative Investment Market (AIM) since 1998 and our interviews reveal the challenges faced by senior managers of UK bio-pharma SME’s in the aftermath of the financial crisis.

During the period 1998 to June 2010 a total of 106 bio-pharma firms listed on AIM, raising investment funds of £2bn. This total investment was split between 65 firms that had exited and 41 still listed on AIM as at June 2010. Our analysis, in this report, reveals that just 11 per cent of total investment went into firms which generated little or no market value return. The other 89 per cent of investment generated a 2.8:1 market value to investment ratio. Although our report finds that capital at risk has been relatively low for equity investors, it is the complexity of the SME bio-pharma business model combined with the aftermath of the financial crisis that presents a serious challenge to securing future viability.

As drug development progresses from concept stage into clinical testing the identity of investors changes as they try to hand on ownership and funding responsibility. In addition, the pressure for additional finance escalates because progress from one clinical stage to the next becomes more expensive. Positive milestone reports leading to higher stock market valuations help to underwrite follow-on funding which, whilst always a struggle, is less of a problem. One CEO’s response is indicative of the recent funding climate:

"These days there are no rules about getting funding, only problems, and it is more difficult to get investors than was the case 10 years ago."

A large majority of the firms listed on AIM burn the cash they raise from financing events to progress products they have in their
development pipeline. One third of those listed on AIM in 2010 were operating with less than six months of cash reserves and many were receiving drip feed funding to keep it all going. Financial uncertainty forcing many firms to rationalise their development pipeline to preserve cash balances for investment into products where there might be a stronger chance of a partnership or licensing agreement. A CEO interviewed in this report revealed how the forced sale of some intangible assets, whilst questioned by others, was necessary to hold the financial line:

“We’ve had this baby for 13 years. Oh my God, you can’t give that away for that. I don’t give a damn, if it gets me from here to there and lets me do the next thing I’ve got to do.”

The recent turnaround in the stock market value of AIM listed bio-pharmas will increase investor confidence and follow-on funding in a sector where capital at risk has been relatively low. However, this report reveals the complexity of stakeholder arrangements structuring the bio-pharma business model for innovation and reinvention. Our report presents the case for innovative short-run and medium term government-led policy initiatives directed towards reconfiguring and securing the UK SME bio-pharma business model.

In the short-run:

- Government funding must continue to promote early stage research and product development in universities and medical research centres.

The uncertainty surrounding university and research institute funding runs the risk of undermining the UK’s capacity to develop new pharma product and create new spin-out investment opportunities.

There is a strong case for government emergency funding where this can sensibly prevent a disorderly downsizing of bio-pharma SMEs.

It is very difficult to recover value from investment in intangible assets when firms go into administration.

In the medium term the challenge is to:

- Re-draw the way in which the bio-pharma business model is financially supported and how risk and return are distributed between the different stakeholders involved in a complex development network - working back from patient neurology into the university/medical research lab.

Our report highlights four central medium term challenges:

- promoting regulated access to NHS clinical datasets to strategically drive drug discovery;
- sustained government funding to UK universities and medical research institutes balancing academic standards with a sense of commercial urgency;
- open innovation investment consortia to spread financial risk that is inherent in long complex development and clinical testing value chains; and
- regional network groups to provide advisory services and mentoring support to the stakeholder network that structures the bio-pharma business model.

Innovative policy interventions, clever regulatory arrangements and imaginative funding mechanisms are required to adapt the bio-pharma business model and secure its contribution to UK national output, employment and balance of trade.

Download this report, from May, at: www.icas.org.uk/haslam

ICAS research publications can be downloaded free of charge from the ICAS website: www.icas.org.uk/research. If you would prefer to order a hard copy - priced £10 or £15 - please contact Angie at the Research Centre on 0131 347 0237 or email: research@icas.org.uk
Can we meet the needs? Auditor views on external assurance and management commentary
Ian Fraser and Jacqueline Pierpoint

This report identifies auditors’ views on the importance and feasibility of external assurance on management commentary and the forms of assurance and reporting which might be applied. Auditors’ views on more general assurance issues are also explored, including views on: the robustness of the external audit process; the usefulness of current audit reports and how they might be enhanced; and other means of enhancing auditor-user communication.

The value of small company abbreviated accounts
John Kitching, Robert Blackburn, Eva Kasperova and Jill Collis

This study investigates the value of small company abbreviated account users. The report highlights the tensions between preparers and users of small company accounts. Whilst users would like more transparency, they recognise that abbreviated accounts are better than nothing. However, preparers prefer the confidentiality offered by abbreviated accounts. It is hoped these findings will be useful in considering the UK Government’s recommendation, based on EC proposals, to abolish the accounts filing requirement for micro entities.

To be notified when either of these reports are published, please email: research@icas.org.uk

Research funding

ICAS is committed to supporting high quality research which is timely and relevant to the accountancy profession or business. Applications are encouraged from researchers and institutions anywhere in the world and are welcome at any point in time. Successful applicants benefit from a close working relationship with a world class professional body that has close links with national and international policy makers and regulators. Research results are widely distributed and discussion events may be held to launch reports and encourage debate.

ICAS seeks research proposals that are in the public interest and which will help to inform the development of future policy.

The research themes which are of particular interest are:

• Ethics and integrity
• Key business issues
• Not for profit sector
• The future of financial reporting and assurance
• Insolvency
• Development of the profession

Three levels of grants are normally available:

• Seedcorn (up to £750)
• Small project (under £2,000)
• Large project (£2,000-£25,000)

Specific calls for research on topics, identified as crucial by ICAS Technical Committees, are advertised on the ICAS website and emailed to subscribers of our email news service. To subscribe for this service please email research@icas.org.uk.

Research is funded by The Scottish Accountancy Trust for Education and Research (SATER), an independent charitable trust, where the research is consistent with its objectives of promoting research into accountancy, finance and management, and related subjects.

We look forward to receiving your applications.

If you have any questions or would like some feedback on a proposed application, please email research@icas.org.uk or drop by our stand at the BAFA or EAA conferences.

Our research funding brochure is available to download at: www.icas.org.uk/researchfunding
Small project - research results

Financial performance indicators in European annual reports

Francesco Dainelli - University of Florence
Laura Bini - University of Florence

Corporate valuations are strongly based on financial indicators, which portray different aspects of the global firm equilibrium. European Directive No. 51/2003 specifically requires their publication in the Annual Report.

This work analyses financial performance indicator (FPI) disclosures in the narrative section of annual reports in Europe. In this study, we analyse four countries – Italy, Germany, the Netherlands and the UK – as they represent different cultural, economic, and regulatory European environments in order to help the standardisation process of European Union and provide useful disclosure benchmarks to companies.

Little is known about companies’ disclosure practices on this topic. Prior literature has highlighted that financial ratio disclosure is poor, follows a selective reporting strategy, and depends on industry and size. There is little cross-country analysis and the quality of ratio disclosure is substantially a neglected theme.

In the light of decision usefulness framework, the informational capacity of financial performance indicators consists of two dimensions:

- How much information is provided (quantity dimension)? All the FPIs disclosed in each annual report are gathered and classified into different categories: cash flow ratios; debt ratios; growth ratios; liquidity ratios; market ratios; profitability ratios.
- How is this information provided (quality dimension)? Qualitative aspects of FPI disclosure are measured with reference to qualitative characteristics defined by the Framework of the IASB: understandability, reliability and comparability (the relevance of an indicator depends on user preferences and is not considered in this study). Each qualitative characteristic is rendered into measurable items, looking at the main standard setter indications: the presence of comments (understandability); the calculation method (reliability); the corresponding amount for the previous year (comparability).

The three items are assessed following a binary method: (0) for absence, (1) for presence. An arithmetic mean is calculated to measure the quality of each indicator. Another arithmetic mean of the scores of all the FPIs disclosed by a firm is calculated to obtain a synthetic measure of quality.

The study included a 237 company sample of Italian, German, Dutch and UK listed companies from manufacturing and service industries.

The sample was selected in order to be statistically representative of each country’s listed companies population.

The results highlight the stereotype of European FPI communication: a firm, wherever it operates, publishes five-six indicators, regardless of its size and industry. EBITDA, EBIT, DPS, and ROCE are almost always published, measures which, according to other studies, the market considers relevant. Profitability indicators are the most disclosed in all countries, while other aspects are provided depending upon the country: more growth, market and cash flow measures in the UK; more debt and liquidity ratios in Italy; Germany and the Netherlands are in between. Nevertheless, the indicators published are easily calculable by financial statement figures, and thus there is a risk that they are adding no real new information.

The same firm, when choosing to publish an indicator, tends to respect the quality aspects defined by the IASB, comparability receiving the highest attention by firms. If that firm is located in the UK, the quality threshold score is, on average, higher.

Looking at the differences over the four countries, there is certain homogeneity in the quantity of FPI communication and this fact might be a first result of the Directive 51/2003. As regards quality, it is superior and less dispersed in the UK, probably due to the Operating and Financial Review Reporting Standard.

A negative relation between the quantity and the quality of FPI disclosure is found. This might mean that two strategies of communication exist: (i) publishing an elevated number of indicators, at the expense of their quality; (ii) publishing few indicators, and paying more attention to their quality. These findings call for further research on the determinants of FPI disclosure.

These results suggest that further investigation is needed on the effectiveness of disclosure and its regulation. The basic questions are: are these five-six indicators enough for users to have a good picture of firm performance?; is it right to concentrate standard setter attention only on key (used by the management) data?; and would a list of mandatory indicators be useful?
Ethical decision-making of accountants in business

Jane Burt - Glasgow Caledonian University
Catriona Paisley - University of Stirling
William Henry - formerly Glasgow Caledonian University

Members of ICAS have a duty to act in the public interest and are expected to behave ethically but how do we make decisions when faced with an ethical dilemma? This article reports the preliminary results of a research project in which we sought to explore how accountants who work in business approach ethical dilemmas. We were interested in how accountants arrive at a decision rather than in the decision per se. In order to investigate this, we conducted 32 interviews with ICAS members. Around half of our interviewees discussed an actual ethical dilemma that they had experienced. The remainder worked through a fictitious ethical case study. This allowed us to cover a wide range of ethical dilemmas in our research, drawing from the interviewees’ experiences, but also allowing us to see whether accountants respond differently to real-life, as opposed to fictitious, scenarios.

In both cases, the initial reaction of the interviewees followed a common pattern. Their first thoughts were about the technicalities, identifying relevant facts and issues from an accounting perspective, and assessing whether these were material. As one interviewee said, “I have the professional knowledge that technically tells me this is not acceptable”. There was then a realisation that the situation had real ethical implications with a variety of decisions to be made. At this point, the interviewees turned to the consequences of these decisions. Sometimes this was from a personal perspective: “You think about your future career... if I whistle-blow will I be looked upon as a trouble maker?”. Other comments showed regard for the professional implications: “Is it better that I stay and give it my level best to minimise the damage... if it starts to unravel, what does this mean for my reputation as a chartered accountant?”. Some interviewees specifically considered the effect on the reputation of ICAS. “I would not want to bring the CA profession into disrepute”.

As our discussions progressed, it became clear that the ethical decision-making process rests on the individual’s own personal values. Most interviewees suggested that honesty, integrity and intuition were guiding factors: “Fundamentally we make judgements about things... my values are based on honesty and integrity...these are core values”. Most interviewees saw personal and professional values being as one: “In terms of values of honesty and integrity, both those personal and professional values are very closely aligned... probably then both values are indivisible”.

Two factors that seemed to play a part in the decision-making process were maturity and organisational setting. Several of the interviewees suggested that if they had been older, and perhaps wiser, at the time that they experienced their dilemma, their decision-choice and action might have been different: “As a younger person, as a newly qualified accountant... my personal and professional values were not the same thing... but I think with age and experience you realise that if the situation does unravel then you are left carrying the can... as a younger person you’ve got enthusiasm, you try to fix it, fight through”.

The organisational setting also appeared to be significant. Members who worked for large institutions frequently highlighted the policies and procedures in place which they felt eradicated the possibility of ethical dilemma situations arising. One interviewee said: “If I was facing that situation at the moment and felt uncomfortable, which is highly unlikely, we are a pretty stringent financial organisation and therefore there are pretty straight rules, people are more unlikely to stray than they would in a more private company”.

Our findings revealed distinct differences in the thought processes of those accountants who discussed a fictitious case rather than a situation that they had personally experienced. The former tended to reach a decision quite quickly, without reference to the consequences of the actions and what these would mean for themselves, either personally or professionally, or for colleagues within the organisation. Because the case was fictional, the choice was more detached and impersonal, almost automatic, with resignation being the preferred option. As one interviewee said, “I suppose ultimately, even if my job is on the line, and we can’t resolve it, I’m going to have to hand in my resignation”. Where the interviewees were discussing a real-life example, it was clear that it was less easy for them to make a quick, and perhaps extreme, decision. In these cases, the suffering and struggle experienced by those who had to come to terms with their decision and the consequences that would follow, were more pronounced. This is not to suggest that those who were discussing fictitious cases were unaware of the consequences. As one member said: “The problem is you are not dealing with reality so it makes it very difficult to be certain what course of action you would undertake...it may not be the action I would take in a real dilemma situation”.

Our findings suggest that accountants draw from their own value systems when considering ethical situations. As one interviewee said: “I think a lot of the time it comes down to your own gut feelings about things, your own morality”. The ICAS Code of Ethics for Professional Accountants states that a professional accountant, whether as an auditor or as an accountant working in business, must act in the public interest and should observe and comply with the ethical requirements contained in the code. However, the responses from interviewees suggest that their first thoughts were from a business perspective, with some regard also for employees and shareholders. The wider public interest was not specifically mentioned. Nor would our interviewees consult the code of ethics for guidance. None mentioned the code, none had consulted the code when in an ethical dilemma situation and their situations were not necessarily thought of in ethical terms. As one interviewee said: “In
hindsight, I suppose I never saw these situations as ethical dilemmas, they were just day-to-day decisions about how you run the company”. When prompted to consider the code, there was a feeling that it would not be helpful. One member commented: “I don’t think that… I would find something there that gives me the answer”. Another said: “I don’t think they are particularly useful… they are just nice, big value-laden statements”.

So what are the implications of these findings? The current ICAS education system includes two days of ethical training but our interviewees had qualified before this had been introduced. Most therefore felt that ethics had not really featured in their education: “I think it was touched upon but I don’t remember it playing a big part in my training”. There is a role for ethics education both during the initial qualification and via Continuing Professional Development but most of our interviewees were unaware of any ethics training provided by ICAS. Many doubted whether ICAS could play a large role. As one said: “Ethics emanates from an individual’s own integrity; it is their personal internal code of conduct that motivates them”. However, some suggested that ethics courses could help to raise awareness of ethical issues and aid individuals to work through their own dilemmas. Our findings suggest that the content and nature of ethics courses needs careful consideration. While fictitious examples can highlight areas for consideration, there seems to be no real substitute for learning through real-life examples, where the complexities and sensitivities are much more pronounced. If ICAS members could be encouraged to share their experiences, as they did with us, then this would make the dilemmas ‘real’.

More needs to be done to make members aware of the Code of Ethics and to encourage members to consult it when they find themselves in difficult situations. Members also need more encouragement to see ethics as something that affects them personally rather than being something for their employers to deal with. The overall impression we gained from our interviews was that accountants do find themselves in complex situations through no fault of their own and that they struggle with their conscience and with the action that they decide to take. Whether to stay and influence the situation, blow the whistle or walk away and say nothing, their decisions have been difficult, sometimes with very serious consequences. The members we spoke to had addressed these decisions in various ways but it would seem that there is a need for a greater concentration of attention to assist members in their ethical decision-making.

Research impact

The researchers on this project recently attended an ICAS Ethics Committee meeting to discuss these findings – warts and all. On the positive side, the Committee was most encouraged to note that CAs do take ethics very seriously. However, looking at the negatives, it was surprising that very few ICAS members ever refer to the ICAS Code of Ethics when they are faced with an ethical dilemma. It was even more surprising that some members believe that the rules and policies enforced within their respective organisations ensure that all such matters can be dealt with. These findings undoubtedly present a challenge to not just the Ethics Committee but also ICAS as a body and the wider profession. The Ethics Committee welcomes this challenge and will continue to seek to ensure that ICAS remains at the forefront of ethics in the profession, and will use these findings in its future strategic deliberations.
Some effects of IFRS on the reporting company and the position of financial accountants

Julian Müller and Nicholas Gill - Lancaster University

The rise of IFRS and their adoption in the EU constitute a far-reaching shift in the regulation of financial accounting for listed companies that has not yet been satisfactorily analysed in its socio-economic context, especially not from the perspective of the preparers of financial statements. The ensuing qualitative shifts in the practices of financial accountants are an under-researched area. This study makes an attempt to fill this gap and give some tentative answers to questions raised by the latter group.

Hypotheses and research design were informed by literature from a range of approaches in the areas of economic sociology and political economy, such as the Varieties of Capitalism school, Neil Fligstein’s seminal study on The Transformation of Corporate Control, or the financialisation literature. These draw attention to the fact financial accounting standards are part and parcel of different ways of doing business that vary geographically and historically. There is also a sense that recent economic and regulatory developments have strengthened the importance of financially oriented goals and management styles at the macro-economic as well as the company level. Focussing on the reporting company, the following core hypothesis was derived:

That the introduction of IFRS, an accounting model that prioritises the views of portfolio investors, strengthens the financial perspective within the reporting entity in a way that is likely to have two principal observable effects:

• an increase in the intra-organisational authority of financial accounting; and
• a tendency for management decision making, internal benchmarks, and reporting systems to be more strongly oriented towards monitoring and influencing a company’s financial position rather than operational goals.

Thus, it is claimed, IFRS relay what has been termed ‘the intrusion of the capital market’ and reinforce the dominance of finance-dominated capitalism by inscribing it into the firm’s operations and internal balance of power.

To test these hypotheses and learn more about intra-organisational effects of IFRS introduction, a series of semi-structured interviews – ten in the UK, eleven in Germany – were conducted with people involved in the financial reporting of listed companies. Qualitative analysis of this data has so far revealed:

• Strong evidence that the introduction of IFRS has, for a variety of reasons, led to an appreciation of the role and importance of financial accounting within the firm. Among those reasons are the complexity and pace of change of IFRS; in the UK their much more rules-based character compared to UK-GAAP; the disconnection between the asset-liability view taken by the IASB and the more profit and loss-focused view of those involved in running a business. As a consequence, the role of the financial accountant has changed from that of the ex post bean counter to that of an expert whose input is required ex ante. Moreover, awareness of financial accounting considerations has spread throughout the entire organisation.

• Results are less clear with regard to the question whether IFRS have affected management and internal processes. IFRS seem to have the potential to effect such changes, but whether this potential is realised will depend on their future development, specifically the extension (or not) of fair value accounting.

• Interviews also revealed deep-seated frustration on the part of preparers both with the development of IFRS – too much useless complexity – as well as the IASB itself, which is seen as ‘too academic’ and not responsive to the needs and viewpoints of businesses, leading to a sense of disconnection between preparers and standard setters.

In the context of this study, the use of semi-structured interviews represented a compromise between the exigencies of maximising analytical depth on the one hand and breadth or generalisability on the other. Some of the patterns of reaction/adaptation to the introduction of IFRS that this research has revealed are worth exploring further through in-depth case studies with only one or two companies. Areas of interest include:

• The role of the financial accountant and his/her interactions with non-accounting colleagues.
• The perception of and reaction to financial statement volatility among accountants and managers.
• The integration/disintegration between financial and management accounting in connection with IFRS (specifically in Germany).
Control systems in the banking sector: Towards an integrated approach?

Pier Luigi Marchini - University of Parma

A coherent and effective management and control system has become of primary importance for companies in carrying out their business activities. Nowadays, companies operate in a situation of constant change and control activities are no longer simple posteriori controls, but have become essential tools in preventing economic and reputational losses that could be fatal for a business. Arguably, control systems are more critical in the banking sector after the financial scandals that have struck the American and European markets.

Changes have also happened in the rules applicable to banks. The most important is that of Basel II, that sets up rigorous risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk to which a bank exposes itself through its lending and investment practices. Another very important rule recently introduced in the EU context is Directive 2004/39/CE, the so-called MiFID (Markets in Financial Instruments Directive) rule, whose function has been to standardise rules for banks in the EU to protect investors and stimulate competition. In particular, in Italy, the Vigilance Rules of the Bank of Italy of July 10th, 2007 introduced some compliance rules for banks to follow.

This is therefore an interesting time in which to analyse changes in banks control systems: For example, the macroeconomic changes, the recent crisis and mergers and acquisitions may have resulted in different control systems. Further, the changes in control systems may now involve new subjects and new business functions; and such factors may have led to a greater convergence of control systems.

This project therefore involved a study of the change in control systems in an Italian bank. Eight semi-structured interviews were undertaken with senior practitioners in the bank. The interviews first investigated general aspects with respect to the different functions and secondly examined the mutual relationships between each department.

Research findings

The first step was a comparison between the control system in place prior to 2007 and the control system in 2010. I found that the new structure is more complex from several perspectives:

- The creation of four new departments: compliance; risk and permanent controls; executive accounting manager; and supervision structure.
- The implementation of a greater exchange of information between the departments.
- A greater degree of frequency of meetings among the different control departments avoiding overlapping control operations and activities, and allowing an increase in the exchange of information.

There has also been a greater convergence of control systems within this bank. In particular, the management accounting department, has changed its characteristics, from a function strictly interconnected only with the commercial division towards a structure where it now has to interact with the risk and permanent control department and with the statutory committee.

Clearly the changes in banking have led to a major change in the control systems of this bank. It will be interesting to see whether this has occurred in other banks or if it is a unique feature of this particular bank.
ICAS Research Committee welcomes new Convener

Allister Wilson has accepted an invitation to become Convener of the ICAS Research Committee.

Allister Wilson is a partner at Ernst & Young with overall responsibility for the firm’s assurance services to the oil and gas sector, as well as being audit engagement partner for the global audit of a large multinational group in this sector. Until 2007 Allister held technical accounting roles within Ernst & Young and advised the European Commission. He is a co-author of Ernst & Young’s International GAAP. Allister is also a member of the Auditing Practices Board of the FRC.

After qualifying as a Chartered Accountant in 1979, Allister took up the position of Senior Lecturer in Financial Accounting at the University of Cape town and then Professor of Accounting and Auditing and Head of Department at the University of Durban-Westville. Allister moved to the UK in 1987 to take up a position in Arthur Young (now Ernst & Young), and was admitted to partnership in 1991.

A guide for PhD students

The Research Committee has recently published the 2011 edition of the guide for postgraduate research supervision in accounting and finance departments in Scotland. It is intended that the guide will assist potential PhD students to identify the supervisor whose research interests are closest to the students’ intended field of study. Copies of Accountancy and finance research study in Scottish universities: A guide for PhD students are available free of charge from the Research Centre and can also be downloaded from the website - www.icas.org.uk/phdGuide. Copies have been sent to all university Accountancy Departments and libraries in the UK and Ireland.

Congratulations

The ICAS research team would like to pass their congratulations on to the recipients of the following awards by the British Accounting & Finance Association:

• Distinguished Academic Award - Keith Hoskin
• Lifetime Achievement Awards - Dave Ashton, Clive Emmanuel, John Holland and Mike Page

The awards are made to individuals who have made a substantial and direct contribution to the academic accounting and finance community. The awards will be presented at this year’s Annual British Accounting & Finance Association Conference at Aston University, Birmingham.
ICAS annual Aileen Beattie memorial event
8th June 2011 - The accountancy profession: Re-invent or face extinction

The annual ICAS Aileen Beattie memorial lecture will be given by Philip Johnson, President of FEE, on 8th June 2011 in London.

The event is being held at Stationers’ Hall, Ave Maria Lane, London EC4M 7DD and will commence at 4:30 pm. If you would be interested in attending the event please email mbavidge@icas.org.uk.

If you are unable to attend but would like to hear the outcome of the debate, a transcript will be available on the ICAS website at: www.icas.org.uk/aileenbeattie - after the event. Transcripts of earlier events can also be downloaded from this part of the website.

Aileen Beattie was Technical Director and the Executive Director, Technical Policy at ICAS over a period of almost twenty years. After a long battle with cancer, borne with characteristic bravery and good humour, Aileen died on Thursday 6th October 2005. Over her time at ICAS, she co-ordinated and contributed to a number of major landmark projects and publications including Making Corporate Reports Valuable, Auditing into the Twenty-First Century, Taking Ethics to Heart and the Principles not Rules project.

Sustainable growth for Scotland

MSPs face a challenging number of years following the 2011 Scottish Parliament elections. Reductions in public spending, combined with likely rises in unemployment and a squeeze on capital expenditure, mean that political achievement will be measured to a large extent by maintaining and improving public services within tighter budgets. ICAS has created a Scottish Parliament pre-election briefing that seeks to offer MSPs our distinctive views on a number of significant areas of devolved responsibility. The briefing, Sustainable growth for Scotland, can be downloaded at www.icas.org.uk/sustainablegrowth

ICAS hosting 2011 British Accounting & Finance Association Auditing Conference

ICAS is pleased to be hosting the 2011 BAFA Auditing Special Interest Group Conference at CA House in Edinburgh, on 12th and 13th May. The programme includes an excellent line up of speakers.

For further information, visit: www.icas.org.uk/auditingsig
Is the future assured?

The highest quality of reporting facilitating efficient capital markets and an assurance framework to inspire confidence in that reporting.

The vision of the ICAS Future of Assurance Working Party

Following the current consultations, inquiries and debates on the subject of audit has become a full time job. In 2009 the UK House of Commons Treasury Select Committee reported on their investigation into the banking crisis – and the auditors were not to escape. While there was no suggestion that auditors had failed in their duties, the Committee was moved to ‘question how useful audit currently is’. Putting the audit firmly in the spotlight, wider concerns began to gain momentum, particularly around the structure of the market: Does the dominance of the ‘Big 4’ accountancy firms present a systemic risk to the capital markets? What would be the consequence of another Andersen-style collapse? Picking up the baton from their Westminster colleagues, the UK House of Lords Economic Affairs Committee has been conducting its own inquiry into audit, concentrating on these market issues. This inquiry has taken evidence from a wide range of stakeholders including ICAS and its report Auditors: Market concentration and their role has just been published.

But it is from Europe that the most controversial consultation has emerged: in the form of a European Commission Green Paper on audit policy issued in October 2010. Questions covered a wide range of issues from the straightforward – should International Standards on Auditing (ISAs) be made mandatory across the European Union? – to the more controversial – should joint or consortium audit be mandatory for listed companies?

In early 2010 ICAS convened its own working group to consider the future of audit and assurance. The working group consisted of members from across the stakeholder spectrum: institutional investors; audit committee chairs; preparers of financial statements; audit practitioners; and representatives from banking, the media and academia. The remit of the working group was not to respond to a particular consultation - although the final recommendations have informed our responses to several. Instead the working group was tasked with making a proactive contribution to the future development of corporate reporting and assurance to better meet the needs of the user.

The report of the working group – The Future of Assurance – was published in December 2010. The working group sought to look beyond the immediate questions of the various consultations and inquiries. Its recommendations focus on three key themes: an improved corporate report; greater transparency from the audit committee; and an expanded role for the external auditor.

The report is written from the perspective of the UK system of corporate governance but we believe its recommendations are relevant across the globe.

The recommendations

The Corporate Report – the ‘front half’ of the annual report should tell a clear, logical and understandable story of the business. That ‘story’ should include the rationale underlying the assumption that the business is a going concern (including the business model, strategy and key risks), the significant judgements made by management in producing the annual report and financial statements and should be signed off by the Board as being ‘balanced and reasonable’.

The Audit Committee – the audit committee report should disclose: a matrix-style report mapping the key risks to the business to the assurance processes over those key risks; details of the auditor appointment process, including the audit committee’s policy on how often the audit appointment should be tendered and the date the audit firm was first appointed. In addition to the annual review of effectiveness of the auditors, an extended review should be carried out every five years through which the audit committee must engage with the investors. The audit committee report should also disclose the key areas discussed between the auditors and the audit committee, including the key areas of audit challenge.

The External Assurance Process – the auditors should provide an additional audit opinion confirming that the going concern rationale underlying the financial statements is reasonable. In addition to the audit opinion on the financial statements, the auditors should provide a separate assurance opinion confirming that the narrative section of the annual report is ‘balanced and reasonable’. The audit report should also refer to the audit committee report and its disclosure of the key areas of discussion.

ICAS will continue to influence current consultations and debates through the report’s recommendations.

Download this report at: www.icas.org.uk/futureofassurance
12 - 14 April 2011
British Accounting & Finance Association Annual (BAFA) Conference
Aston Business School, Birmingham
w: www.bafa.group.shef.ac.uk
e: bafa@shef.ac.uk

20 - 22 April 2011
European Accounting Association Annual Conference
LUISS University, Rome
w: www.eaa2011.com
e: romeaa2011@triumphgroup.it

12 - 13 May 2011
BAFA Auditing & Assurance SIG
ICAS offices, Edinburgh
w: www.bafa.group.shef.ac.uk/group
e: i.g.basioudis@aston.ac.uk

24 - 26 May 2011
BAFA Accounting Education SIG
Winchester Business School
w: www.bafa.group.shef.ac.uk/group
e: pru.marriott@winchester.ac.uk

7 June 2011
BAFA Scottish Doctoral Colloquium in Accounting & Finance
University of Edinburgh Business School
w: www.bafa.group.shef.ac.uk/regional
e: pauline.weetman@ed.ac.uk

7 - 8 July 2011
BAFA Financial Accounting and Reporting SIG
University of Bristol
w: www.bafa.group.shef.ac.uk/group
e: michaeljohn.jones@bristol.ac.uk

31 August 2011
BAFA Scottish Area Conference
University of Edinburgh Business School
w: www.bafa.group.shef.ac.uk/regional
e: pauline.weetman@ed.ac.uk

5 - 6 September 2011
BAFA Conference of Professors of Accounting & Finance (CPAF)
Manchester Conference Centre
w: www.bafa.group.shef.ac.uk/cpaf
e: i.tonks@bath.ac.uk

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