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Dear colleague

Welcome to our latest newsletter. We hope that you had a lovely summer!

Since our last Newsletter we have attended the BAA conference in Cardiff and also the EAA annual congress in Istanbul. Both conferences were well attended and it was nice to see some of you there.

We have published four new reports in the last few months, two of which are our new style reports. These are much shorter and we hope that they will appeal to both academics and non-academics. Please let us know if you like our new style reports. To be notified of new reports as they are published, as well as other research opportunities, join our email news service by emailing research@icas.org.uk.

As always, we would be pleased to hear any of your ideas for policy-relevant research and provide informal comments – just drop us an email with a short outline of your proposal.

The ICAS Research Team
Meetings the needs? User views on external assurance and management commentary

Ian Fraser, Bill Collins, Jacqueline Pierpoint and William Henry

Investor concerns, the recent worldwide financial crisis, and the complexity of IFRS-based financial reporting, as well as other factors, have resulted in the future parameters of external audit and assurance becoming the subject of serious reflection as perhaps never before. One key issue is the scope of assurance and whether or not, for example, this should extend to those elements of contemporary corporate reports for which, at present, external assurance is not a requirement. A second issue is the nature and content of audit reports including the extent to which these should continue to be generic in nature rather than becoming more entity-specific in terms of the judgments underpinning the audited financial reports or inherent to the audit itself. A third issue concerns the relative nature of the communications which auditors have with the various stakeholders who rely on their reports, most obviously perhaps shareholders and audit committees or corporate boards generally. Thus there are questions as to the what, how and to whom of assurance; in many respects the issues are not mutually exclusive.

This research reports the first stage results of a major research project investigating the perceptions of users, both investors and non-investors, and of auditors, on the desirability of assurance on the ‘front end’ of corporate annual reports and on related issues such as the usefulness of existing audit reports and the need for auditor-investor dialogue. The monograph itself, and the associated research summary report, reveal a rich variety of differing user perceptions on both the immediate research issues as well as on the external audit function generally.

Many of the findings from the first stage of the project constitute a user manifesto for a radically revised assurance function. Users increasingly find management commentary, as well as the ‘front end’ generally, as particularly useful components of the corporate reporting package and there is an appetite for external assurance on this, although views vary widely as to the required scope and depth of assurance which is required. Existing audit reports are not regarded as useful by users generally; many users believe that reports should focus much more on risks, uncertainties and other entity-specific matters and need to communicate more of the subtle nuances inherent in audits in shades of ‘grey’ rather than simply in terms of a binary ‘black’ or ‘white’ opinion. While the UK APB has taken some tentative steps towards more useful audit reports, more radical initiatives may be appropriate. Some users also envisage a need for dialogue between auditors and shareholders and for enhanced auditor-shareholder relationships that exist not just legally but substantively. While the issues of what reports are subject to assurance and how that assurance is communicated are distinct, there are evident connections between them. Thus the more adventurous end of the spectrum of user opinion includes some who believe that auditors might, in effect, write their own commentaries on those of management. Such views highlight that many investors, and other users, would welcome significant revision of the external assurance function.

However, problematic considerations such as the scope of the assurance on management commentary which is technically possible and the possible inhibiting effect of the existing auditor liability framework mean, that the issues require thoughtful exploration with auditors themselves as well as with other interested parties such as regulators. This is the objective of the second stage of the research which is now well advanced and will result in the publication of another research monograph in late 2010 or early 2011. Preliminary findings suggest that while the popular perception may often be of an audit profession which is cautious and defensive, many auditors are seriously concerned about the issues and perceive a need for substantial reformation of the external assurance function in order to ensure its continuing relevance. Auditors’ perceptions of the desirability of assurance on management commentary, for example, appear to at least match those of users. One senior audit partner expressed what he saw as the key issue like this:

> I am passionate about the audit profession and what the future holds for us. It is all very easy just to carry on and hope the music keeps going but I think we are in danger after the financial crisis of becoming irrelevant.

The second stage results will discuss in detail what auditors believe should and can be done in order to facilitate more useful assurance. Watch this space!

Download the new style summary report and/or traditional report at: [www.icas.org.uk/fraser-users](http://www.icas.org.uk/fraser-users)
Measuring and assessing tone at the top using annual report CEO letters

Joel Amernic, Russell Craig and Dennis Tourish

Winston Churchill’s speeches during the dark hours of World War II were recognised as highly inspirational and crucially important. Barack Obama’s speech in Cairo in June 2009 is widely regarded as an important part of building a new, positive engagement between the West and Islam.

However, it is not just political leaders whose language can inspire and energise followers and set them on the path of good work – or indeed, demoralise them and set them on a path of destruction. The language of corporate CEOs has similar potential.

As we point out in our ICAS research study, an important aspect of the power of the language of leadership is that “CEOs... strive to create a ‘tone at the top’ that will set a powerful example for important internal and external stakeholders”.

The words of corporate CEOs are in the media spotlight more than ever before. In February 2009, four CEOs from major banking corporations in the UK were summoned to give evidence to the Banking Crisis Inquiry in the UK House of Commons. The CEOs received a rigorous interrogation from MPs and a mauling by the British media. But this parliamentary scrutiny and press criticism came after the crisis.

Auditors and corporate report users need to ponder whether a study of the words CEOs use could have provided danger signs of dubious financial accounting and reporting practices at a much earlier stage. This, surely, is a more appealing prospect than diagnosing the causes and consequences of a financial crisis after the fact. We contend that auditors and the business community more generally should analyse the words of CEOs more closely.

The study

In the study, we explore various tools whereby CEO letters to shareholders (or similar text) can be subjected to closer examination by auditors and corporate report users. We contend that CEOs have a strong influence on the tone at the top of companies and consequently on the quality of financial reporting. In many failed companies, top management encouraged an attitude of contempt for regulation and supported the choice of accounting practices simply to prop up the company’s share price.

Enhanced auditor scrutiny of the content of a CEO’s letter may help to reveal the CEO’s mindset and attitude to risk exposure and risk management. Knowledge of tone at the top, elicited from the words of CEOs, could be instrumental to auditors in planning reviews of internal controls, in assessing the effectiveness of corporate governance protocols, and in preparing audit opinions.

The suggestions in our ICAS research are consistent with the emphasis of ISA 315: Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment on the importance of understanding audit risk comprehensively. While recognising that auditors make use of internal information and evidence in making their risk assessments, we propose that focusing closely on the language of CEOs can help auditors to assess organisational tone and culture and, ultimately, business leadership risk. Our methods may help identify whether organisational cultures are too partial to risk or too risk averse.

Analysis of CEO letters

We recommend two complementing analytical approaches: one qualitative and the other quantitative. The techniques in these complementing approaches, when used in combination, have strong potential to furnish valuable understandings of organisational culture and top management outlook and intention.

The qualitative approach subjects CEO letters to ‘close reading’ or forensic examination to understand the inherent ideology, rhetoric, and metaphor and to expose any ‘silences’. Our ICAS study provides examples that include the letters of General Electric’s Jack Welch, British Petroleum’s Lord Browne and Enron’s Skilling and Lay.

Close reading of CEO letters presents special challenges because it requires the reader to:

• be sensitive to the power of language and metaphor,
be aware of the historical, social and psychological forces which influence the conduct of CEOs and companies;

• develop ideas about a letter’s pervading themes and critical silences; and

• examine how the letter is, or is not, consistent with other aspects of a company CEO’s discourse, such as interviews and speeches.

The quantitative approach analyses CEO letters using a widely available and popular text analysis software package, DICTION. This software can enable auditors or other users to construct a ‘Master Variable’ (or collection of key marker words) to help them detect an undesirable tone at the top. DICTION provides sets of built-in dictionaries that have been constructed by the software developer using semantic theories, thus ensuring a reasonable level of credibility.

DICTION allows an analysis of CEO text using any set of key marker words. Thus, auditors could be watchful for any extreme patterns of word use. This may be helpful in deciding whether to deploy closer audit monitoring and/or more stringent corporate governance controls.

For example, auditors could contemplate drawing on the idea that long-term organisational success is likely to be impaired when a leader proffers language revealing a blend of hubris and personal abandon. Consequently, they could construct a ‘hubris’ master variable of key marker words and apply DICTION to identify and investigate extreme positive measures.

Indeed, a ‘hubris’ index could be compiled by combining existing DICTION variables for:

• accomplishment (a set of words reflecting a ‘can-do’ mentality);

• tenacity (a set of words reflecting confidence); and

• praise (a set of words representing a propensity for affirmations).

Close reading and a DICTION-based analysis should be applied in tandem to enhance opportunities for insight, diagnosis and prescription. In our study, we demonstrate the complementing use of both techniques by exploring the US sub-prime mortgage company New Century Financial Corporation’s CEO communications pre-bankruptcy.

Implications

While recognising that assessing tone at the top in a comprehensive fashion requires analysis of a broader array of corporate communications media, the findings from our study point to the analysis of CEO letters to shareholders as being a very fruitful contribution to this process.

We believe that the accounting profession should be more receptive to the importance of language in constructing and assessing how accounting and auditing operates. Auditors should regard close reading and DICTION analysis as valuable tools in conducting culture and communication audits and in assessing business leadership risk.

If there is to be a greater appreciation of words and CEO discourse in auditing and accounting contexts, curriculum reform may be needed in accounting education – including in Continuing Professional Development programs. There needs to be a greater commitment to developing sensitivity to the impact of language.

Auditors must also reconsider their role, and reflect on how they can make a more effective contribution to the diagnosis of risk and the prevention of crisis. In a world that now seems changed forever; a re-tuning of auditing skills and mindsets is inescapable. Without such a focus, the legitimacy of the auditing profession will be open to challenge.

Download the report at: www.icas.org.uk/amernic

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
The phrase intellectual capital (IC) refers to the intangible knowledge resources which create company value. It comes in the form of human, structural and relational capital.

Under International Financial Reporting Standards, many IC elements are not routinely recognised in the financial statements, although certain non-specific disclosures are required in the Enhanced Business Review and others are recommended by the Operating and Financial Review (OFR) Reporting Statement.

Despite the persuasive force of the OFR Reporting Statement, the description of resources and intangibles that companies provide in the annual report has been considered less than adequate by many observers. This situation appears unsatisfactory, given the disparity between the market and book values for many listed companies. It places a question mark over the effectiveness of UK reporting practices in today’s knowledge economy.

To shed some light on the issue, we conducted a questionnaire survey of three key preparer groups involved with UK domestic listed companies. Ninety three finance directors completed the main questionnaire, with shorter versions being completed by 67 human resources specialists and 68 marketing specialists. The total of 228 completed questionnaires equated to a 10.1% response rate. We followed up with 17 interviews to explore the issues further.

Our findings confirm that IC is undoubtedly important. The majority of finance directors believe that 50% or more of corporate value is attributable to IC. We find a high level of variation in relation to the individual importance of the various elements of IC. However, customer relationships, competitive edge in terms of quality of product/service, company reputation, and employee skills and education appear to contribute to corporate value the most.

As one of the finance directors put it: “The only assets we have in our business are our people... our main route to market is a combination of our people and their ability to convince clients.”

Employee skills and education, employee commitment, positive employee attitudes and positive employee behaviour were considered most important by human resources specialists. The marketing specialists considered customer relationships, company reputation, competitive edge in terms of quality of product/service, and data/knowledge of customers to be the most important elements of relational capital.

According to one of the marketing directors in the survey: “If you don’t know who your customers are, which of your products they have, what they’re doing with them and, to a large extent, why they care about them, it’s incredibly difficult to go back and sell them anything else.”

We asked human resources and marketing specialists about the extent to which human and relational capital elements are used internally and disclosed externally. Employee training and development, workplace safety, employee remuneration procedures, employee turnover and recruitment and selection procedures were used the most internally (by 82% or more). However, with the exception of workplace safety, external disclosure of the vast majority of human capital elements was low (under 50%).

Interviews revealed that companies attempted to capture information on the less tangible human capital components through opinion surveys, appraisal reviews and manager observation. The relational capital elements that were used the most internally are: data/knowledge of customers; marketing strategies; and customer relationships and competitive edge in terms of cost of product/service. Interestingly, however, these were not the elements most frequently disclosed externally (those were ‘brand names’ and ‘product portfolio’).

So what motivates UK companies to externally disclose IC information? The finance directors surveyed consider that capital market-related incentives dominate the decision. The opportunity to increase transparency to capital markets in terms of helping to correct an undervalued share price was considered of paramount importance in the disclosure of both structural and relational capital.

However, helping to create trustworthiness with employees was the most important incentive in the disclosure of human capital. Capital market incentives dominated the disclosure of structural capital, whereas the disclosure of human capital and relational capital were also driven by incentives which relate specifically to the category of information being disclosed.

According to the human resources specialists interviewed, helping to both attract and retain employees of high calibre are the most important incentives for human capital disclosure. The marketing specialists highlight the customer-focused incentives for disclosure; helping to create trustworthiness with customers is the most important.

However, disclosing customer relationship information appears to be a balance between creating trust with potential customers, violating trust with existing customers and equipping competitors
with ammunition. Indeed, avoiding giving away company secrets or otherwise harming competitive position appears to be in the forefront of most minds. As one marketing director remarked: “You want to have as much information in the hands of your customers as possible, and you want to have as little information in the hands of your competitors as possible.”

Through talking with the various functional directors, we became acutely aware that IC disclosure drivers are very much situation-specific. Also, disclosure is not always within a company’s control if management want to avoid potential legal or commercial penalties. Owing to the very nature of certain businesses, external disclosure is essential if companies want to appear legitimate and ethical.

One of the finance directors interviewed remarked that in the current business climate, this had never been so important: “In the early 1990s, the test was ‘if it’s legal, that’s alright’. The test isn’t that anymore, the test is ‘How would it read on the front page of the Daily Mail, and would I be happy explaining this to my mum?’ The test for all businesses is much different from where the law sits... so you end up having to try and inform all those opinion formers.”

In addition to finance director input, both the human resources and the marketing specialists told us that they contributed significantly to the content of the corporate annual report. We found that the annual report is considered effective in communicating basic IC information; however, its usefulness for communicating complex IC information or new, previously undisclosed IC information was questioned.

Companies use various communication channels and a number of them appear to present or package the information in a different manner according to the communication channel being used. Finance directors evaluated one-to-one meetings with investors, one-to-one meetings with analysts and investor presentations as the most effective communication channels for disclosing all three categories of IC information. For the human resources specialists, the importance of communication to employees took precedence over the external communication about human resources. The marketing specialists cited trade shows, conferences and events for existing or prospective customers as effective channels for face-to-face communication externally. Company web pages were considered effective by all the functional specialists.

Overall, our survey confirms the importance of IC to the creation of company value. The principal themes running through our findings are diversity and the situation-specific nature of IC and, therefore, its disclosure (in terms of IC information content and communication channels). Clearly, accounting for IC matters!

However, establishing what IC information should be externally disclosed, in what format and through what mix of channels is a complex issue. We are left questioning whether meaningful and effective regulation is desirable. If it were, at what level of detail and in what form should it operate? Should we have specific rules/guidelines/principles that apply universally across industries, rules/guidelines/principles specific to industry sectors, or generic rules/guidelines/principles that permit company-specific application?

Owing to the situation-specific nature of IC, it would seem that regulators can’t hope to address this issue in its entirety. A degree of IC is unique to individual companies and the company is best placed to describe this uniqueness in its own terms.

However, there does appear to be some common ground. Our findings, for example, highlight those relational and human capital elements which are considered by a representative cross-section of preparers to be significantly more important than others. There is an opportunity to investigate whether a set of industry-specific standardised metrics can be developed and their disclosure regulated.

Our principal recommendation is for the International Accounting Standards Board (IASB) to find the resources to place the intangibles project on its active agenda. This will help to generate further research into IC, its measurement and its disclosure. The IASB should not procrastinate in this area, as the future of the accounting profession and its role as the key reporting function depends on it.

Download this new style report at: www.icas.org.uk/beattie-thomson
The good, the bad and the ugly: A discussion of the impact of regulatory reform on the UK credit union sector

Donal McKillop, Anne-Marie Ward and John Wilson

Credit unions are self-help cooperative financial organisations geared to attaining the economic and social goals of members and local communities. Credit unions cannot do business with the general public due to charter limitations based on serving a membership that is characterised by a common bond. The most distinctive characteristic of a credit union is, however, its not-for-profit motive. Unlike most other financial forms credit unions are not required to simultaneously satisfy shareholders’ profit expectations and disparate customer needs. Nor are their managers awarded bonuses that are linked to equity shareholder value measures.

UK credit unions – some figures

Credit union development in the United Kingdom (UK) has been somewhat patchy. In Northern Ireland (NI) the credit union movement is relatively strong. There are also areas of significant strength in Scotland, particularly in the west of Scotland. At the end of 2008, there were 661 credit unions in the UK with a membership of 1,168,971 and total assets of approximately £1.507 million. Of this number 177 credit unions are based in NI where they control £920.7 million in assets and have a membership of 431,605. Approximately 23.6% of the population in NI are credit union members compared to 1.6% in Great Britain (GB).

UK credit unions – legislation and regulation

Credit unions in GB and NI operate under different legislative environments with the legislative environment in GB much more permissive. In GB the Financial Services Authority (FSA) has regulated credit unions since 2002. The FSA’s regime also extends to the protection of credit union members’ funds under the terms of the Financial Services Compensation Scheme (FSCS). Credit unions in GB also play a prominent role in the Government’s financial inclusion agenda and receive support through the Growth Fund. In NI, the regulation and supervision of credit unions is the responsibility of the Registrar of Companies, Credit Unions and Industrial and Provident Societies. Credit unions in NI receive no financial support from government and do not have access to the FSCS operated by the FSA.

Further legislative changes are imminent in GB and NI. In GB, legislative reform includes measures that are designed to remove obstacles to efficiency, productivity and profitability of credit unions, and align supervision with that currently in force for banks and building societies. In NI, a recent review has recommended that legislative and registrar functions remain with the NI Assembly, but that regulation is transferred to the FSA. In essence these changes will allow NI credit unions to offer a wider variety of products and services and permit access to government schemes for lending.

The ICAS study

In this study we investigated the extent to which previous regulatory and legislative amendments have impacted on the performance and stability of credit unions in Scotland and NI. Drawing on financial data, we explored consolidation, failure, product diversification and efficiency. Semi-structured interviews were then undertaken with key stakeholders to determine perceptions as to the impact on credit unions of the regulatory framework and the economic environment. A key emphasis in the interviews was to obtain an understanding of the consolidation process in Scotland and to determine if the financial crisis was impacting on credit union performance.

A selection of the main findings

- Bad debt write offs and loan arrears have significantly increased. This has been caused by a deterioration in economic conditions, insufficient screening of borrowers, changes in insolvency legislation (more favourable for debtors), widening of the common bond and an increased focus on the financially excluded (in the case of GB credit unions).
- Forthcoming legislative amendments in GB to loosen the common bond requirement; widen requirements relating to membership qualifications; and reduce restrictions on non-qualifying members, are premature given the development of the movement thus far.
- Changes in insolvency legislation in Scotland make it an imperative that credit unions tighten credit control procedures. For example, they might consider using credit rating agencies and/or requiring documentary evidence to support the credit rating of a guaranteeing member, as well as the loan applicant.
- For NI credit unions it is now important that they come under FSA regulation permitting members to have access to the FSCS. It is also important that they should be able to diversify around core products, but diversification away from this core is not supported by the research as this is unlikely to enhance credit union returns, nor result in risk reduction.

Download this new style report at: www.icas.org.uk/mckillop
Public private partnership financiers’ perceptions of risks

Istemi Demirag - Queens University Belfast
Iqbal Khadaroo - University of Essex
Pamela Stapleton - University of Manchester
Caral Stevenson - Oxford Brookes University

Public private partnerships (PPP) are used extensively in the provision of public services. Who actually bears the risk in such schemes? This new research report looks at PPP schemes from a new and different viewpoint by examining financiers’ perceptions of risks and then comparing them to the perceptions of their public sector partners.

The 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.

Pension risk disclosures by FTSE 100 companies

Margaret Woods - University of Nottingham
Christopher O’Brien - University of Nottingham
Mark Billings - University of Nottingham

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 report addresses the issue of how companies should report this risk so that stakeholders can understand a company’s exposure to pension risk.

The report provides: an analysis of current defined benefit pension scheme risk disclosures by FTSE 100 companies; examples of current practice; suggests best practice for the future; and makes recommendations to the IASB and to the UK ASB.
Large project grants awarded

An analysis of the impact of IFRS8 compliance on the published financial statements of UK companies: An analysis of disclosures and an investigation of user, preparer and auditor perceptions
Louise Crawford, Christine Helliar, Dave Power - University of Dundee

This research has three aims. First, it will examine how a sample of 150 UK listed companies have implemented IFRS8 ‘Operating Segments’ in their financial statements, compared to the previous IAS14 ‘Segment Reporting’ disclosures. Second, the research will analyse the IFRS8-related narrative disclosures in the reports for the same sample of UK listed companies. Third, the research will involve 24 interviews to ascertain preparers’, auditors’ and users’ views about the application of IFRS8.

Surviving the economic downturn: Exploring older people’s experiences of the impact of the current financial crisis and ways in which they can be supported during these times of crisis
Sarah Hean, Stella Fearnley, Steven Ersser, Lee Ann Fenge - Bournemouth University

The investigation considers the older person’s experiences of the current economic downturn. In particular, the impact of the current recession on their wellbeing; their current financial capability/ knowledge and their information needs; the services they currently access for financial advice and support; and their preferences in the way financial advice and support should be delivered. It will also explore the perceptions of financial service providers.

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

The study investigates the value of small company abbreviated accounts to preparers and users and considers the impact to preparers and users if the abbreviated accounts option was abolished and: (a) small companies were obliged to file full accounts; or (b) small companies were exempt from the statutory requirement to register accounts.

Accounting for and accountability of joint venture partnerships in local authorities
Anne Stafford, Jean Shaoul and Pam Stapleton - University of Manchester

This study aims primarily to examine the accounting of and accountability for joint venture arrangements used by Local Authorities (LA) to provide education infrastructure using the Building Schools for the Future programme. Due to the large sums of public money under the control of private sector providers, there is a clear public interest in the reporting of these activities. Furthermore, joint venture accounting is currently the subject of review by regulators and is of international relevance.

The consequences of implementing IFRSs on public policy
Ciaran Connolly - Queens University Belfast
Anthony Wall - University of Ulster

Focusing on the devolved administrations in Northern Ireland, Scotland and Wales, this research seeks to examine the impact on departments, in particular their policies and decision-making, of the adoption of International Financial Reporting Standards (IFRSs). The project will also aim to: illicit the views of internal stakeholders on the merits and drawbacks of IFRS; evaluate whether reporting under the IFRS regime adds value to the management and decision making of government; and highlight good practice and lessons to be learnt for the future.

This project is being jointly funded with the Irish Accountancy Educational Trust.

Employing business improvement techniques to improve performance and reduce risk in services outsourcing
Ronan McIvor - University of Ulster

Services outsourcing has grown, as organisations attempting to reduce costs and improve performance, have been transferring responsibility for entire functions such as human resources, finance and information technology services to service providers. Increasingly, organisations have been employing business improvement techniques to transform performance and, at the same time reduce risk in services outsourcing arrangements. This study will provide, through practical illustrations, insights into how business improvement techniques can be employed to improve performance and reduce risk in the outsourcing process. The benefits and challenges will also be identified. Four case study organisations will participate in the research.
Small project grants awarded

The early development of professional ethics among Scottish accountants
Roy Chandler - Cardiff University

This study involves a review of the ICAS archives in order to gain an insight into the ethical dilemmas faced by the growing body of accountants during the period to 1930. An examination of the matters which called for disciplinary action and those in which no action was considered necessary will reveal the tensions within the emerging grouping. The aim will be to obtain a sense of how difficult practical issues were dealt with and how these shaped the future development of professional ethics among accountants.

The effectiveness of the processes for redress by institutional shareholders when board explanations of non-compliance with the Code of Practice for Corporate Governance are deemed unacceptable
Stuart Ogden - University of Sheffield

On 10th March 2008 Marks and Spencer announced that their existing Chief Executive Officer (CEO), Sir Stuart Rose, was also to be appointed to the chairmanship of the company. This was in breach of the long established governance principle that it is undesirable to have the same person acting in these two key roles. It prompted an unprecedented period of public criticism of the board by some of the company’s largest institutional shareholders. This interview-based project will addresses the question of how effective the provisions under the comply-or-explain approach are for redress for shareholders who find a company’s explanation for non-compliance unacceptable. By focusing on one critical instance (Marks and Spencer) the research seeks to illuminate the difficulties shareholders may encounter when attempting to achieve redress and prompt more general reflections and views about the effectiveness of the ‘comply-or-explain’ approach.

Seedcorn project grants awarded

The role of auditors in prudential supervision post financial crisis: UK, EU and international developments
Ian Dewing and Peter Russell - University of East Anglia

The ethical corporate governance system of fully employee-owned firms: written constitution, employee board representation and multi-tiered boards.
Marco Guidi - Glasgow Caledonian University

Developing a reliable psychometric instrument to measure individual’s dispositions towards rules and principles
Ying (Olivia) Feng, John McKernan and Paddy O’Donnell - University of Glasgow

These research grants have been funded by the Scottish Accountancy Trust for Education and Research

Registered Scottish Charity SC034836
ICAS launches new assurance research

ICAS launched its research report Meeting the Needs? User views on external assurance and management commentary to a packed audience in London on the 8th July 2010.

The report, by academics from Glasgow Caledonian University and the University of Stirling, found investors and shareholders often found front-of-the-book explanations in annual reports ‘boilerplate’ which includes ‘misleading management spin’. It also highlighted there was ‘significant demand’ for some degree of auditor assurance on annual report’s front end (see page three for further details of the report).

During the event, presentations were made by panel members including Professor Ian Fraser, University of Stirling; Michael McKersie, Assistant Director, Capital Markets, Association of British Insurers; Rt. Hon. Lord McFall, House of Lords; Steve Maslin, Chair, Partnership Oversight Board, Grant Thornton; and Alan Thomson, President of ICAS.

David Wood, ICAS Executive Director, Technical Policy, said: “There is a clear view that something similar to the current audit report would fail to reassure users of the integrity of the directors’ commentary. This brings a challenge to the auditing profession, investors and regulators to work towards a broader assurance report which can provide more comfort on the management narrative on matters such as the company’s risks and uncertainties.

“The unanimous view from the panel and audience is that the financial crisis is now more than two years old and it is time for reporting and auditing to change to meet the evolving needs of the market.”

The event was a joint event with Grant Thornton and the high profile audience included ICAS members, representatives from professional firms, policy makers, regulators, industry, investors and other professional bodies.

To download the report and/or the slides from the event visit www.icas.org.uk/research

Debate and reports explore assets of mind - Intellectual capital under the spotlight

ICAS, together with the Intellectual Assets Centre, hosted a discussion event to debate ‘The reporting and disclosure of intellectual capital’ in Edinburgh on 14th July 2010.

The debate also saw the launch of two recently published ICAS research reports: Intellectual Capital Reporting: Academic Utopia or Corporate Reality in a Brave New World and Intellectual Capital Disclosure Practices and Effects on the Cost of Equity Capital: UK Evidence.

Panel members included Professor Vivien Beattie, University of Glasgow; Dr Sarah Smith (previously Thomson), University of Stirling; Dr Musa Mangena, University of Bradford; and Iain Russell, Chief Executive of the Intellectual Assets Centre. The event was chaired by David Wood, ICAS Executive Director, Technical Policy.

David Wood said: “It is clear that intellectual capital drives future company value, but the issue of how this should be reported continues to cause controversy. We need to consider how to improve corporate communications in this area while recognising the issue of competitive sensitivities.”

To download the report and/or the slides from the event visit www.icas.org.uk/research

To be kept up to date on future events, register for our free email notification service by contacting: research@icas.org.uk
Parenthood through a gendered lens: the prospects for partnership

Elizabeth Gammie - Robert Gordon University
Kathleen Herbohn - University of Queensland
Rosalind Whiting - University of Otago

Professional accountancy firms have been widely criticised for failing to promote women to the higher levels of their organisational structures. Whilst the level at which vertical segregation operates has risen, there still remains a blocking point at partner level. Indeed, recent statistics reveal that the public practice gender split of CPA partners in Australia is 12% female/88% male with similar figures reported for ICAS partners in Scotland at 13% female/87% male.

This situation exists despite an increasingly feminised profession. In the UK, the proportion of female members of the six UK based bodies has increased from 26% in 2002 (22% for ICAS) to 31% in 2007 (27% for ICAS). In Australia and New Zealand the proportion of female membership is even higher at 41% and 38% respectively. In addition societal, educational and economic changes should have diminished some of the barriers that have prevented progress. For example, within the traditional family environment, the decline of marriage rates, marital instability, falling birth rates, women delaying the start of a family until their mid thirties, the increasing availability of child-care and shared responsibilities within marriage should have enabled women to gain more meaningful work and pursue a career.

However, social change in organisational practice is less forthcoming. Professional accountancy firms permeate a ‘macho culture’ which is very client focussed, deadline driven and demands long hours and career progression has traditionally been dependent on a traditional linear career path which does not easily accommodate motherhood.

In addition, whilst some of the criteria for promotion to partnership within professional accountancy firms are objective, such as qualifications, tenure, high productivity, overseas experience, diligence and technical expertise, other more subjective criteria, such as relationship building with staff and clients, ability to generate new business and add value to clients, are also considered. This subjectivity allows inherent biases to influence the promotional decision and the accounting profession has been heavily criticised for gender-based discrimination in promotion decisions.

This is particularly the case when the individuals concerned are mothers, as the traditional view of society is that it is a women’s primary responsibility to mother and all women are subsequently defined in relation to this role. Hence motherhood is considered in a negative light for women’s career advancement and indeed is regarded as a driver for women’s scarcity at the top of professional accounting firms. Marriage and fatherhood for men, on the other hand, are regarded positively for promotion as fathers are seen as stable, more reliable and hence more economically viable than their single counterparts.

Our study considers these issues by investigating the perceived effect of gender and family structure on career promotion to partner within professional accountancy firms in three countries, Australia, UK and New Zealand. Specifically, we examine the impact of stereotypical roles on the promotion decision.

Research design

Data was collected via an experimental questionnaire delivered online to partners of professional accountancy firms whose professional accreditation was with ICAS (Institute of Chartered Accountants of Scotland), NZICA (New Zealand Institute of Chartered Accountants), ICAA (Institute of Chartered Accountants in Australia) and CPA Australia (Certified Practising Accountants Australia). After a series of mail-outs, a total of 302 useable responses from practicing partners were received – 99 from Scotland, 104 from New Zealand and 99 from Australia, which represented a response rate of 14%, 8% and nearly 6% respectively. Whilst these rates were low, they were not unexpected due to the time and job pressures of the respondents.

The questionnaire comprised two sections. One section elicited demographic data including age, gender, professional status, size of firm and years of experience as a practising accountant. The other section required respondents to consider three hypothetical cases which incorporated promotional success factors identified as significant in the prior literature. Respondents were required to assess the probability (ranging from 0% to 100%) of an individual in each case receiving promotion to partner in a professional accounting firm. The first case was designed to represent an average candidate for
partnership, the second, an above average candidate and the third, a below average candidate. In addition, respondents were asked to list the most crucial factors considered in their partnership assessment of each case.

Case 1 (average candidate) and Case 3 (below average candidate) were both articulated as a married male candidate as the prior literature had suggested that this particular interaction of gender and family structure is the preferred model for partnership. Case 2 (above average candidate), however, varied as follows: single male, single female, married male with two children, married female with two children, dual career male (partner also a full time professional) with two children and dual career female with two children. By varying the facts relating to gender and family structure for this particular case it was possible to determine if gender or family structure influenced the partnership prospects. Thus, there were six versions of the questionnaire which were subsequently supplemented by a seventh version, included for control purposes, in which the individual in each of the cases was neither allocated a gender nor family structure.

**Results**

The gender and family neutral version of the questionnaire indicated that the cases were ranked as intended.

<table>
<thead>
<tr>
<th>Candidate</th>
<th>Mean probability of promotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1 – average candidate</td>
<td>54.50</td>
</tr>
<tr>
<td>Case 2 – above average candidate</td>
<td>80.24</td>
</tr>
<tr>
<td>Case 3 – below average candidate</td>
<td>41.67</td>
</tr>
</tbody>
</table>

**Does gender influence the likelihood of promotion to partner?**

The promotion success ratings assigned to Case 2 when the candidate is female were predicted to be lower than the success ratings of the corresponding male candidates. However, this was not the case, as the mean score for all the female candidates grouped together was 78.19% in comparison to the total group of male candidates at 78.18%. Indeed, even when the mean scores were considered for each type of family structure there was considerable similarity between the female mean scores: 78.25% (single), 79.73% (married) and 76.87% (dual career) and their male counterparts: 78.9% (single), 79.5% (married) and 78.24% (dual career). Thus, the evidence presented here does not support the contention that women are discriminated against solely on the basis of their gender. One possible explanation for this is the fact that it is parenthood rather than gender per se that influences promotion.

**Does parenthood impact the likelihood of promotion to partner?**

In this case the proposition was that motherhood negatively impacts on promotional success while fatherhood is at least neutral and more likely to be a positive influence on promotional success. The results, however, refute these propositions due to the insignificant differences found between the mean scores of candidates irrespective of gender and family structure. Even when motherhood was taken as a category and compared to the rest of the sample (all men irrespective of family structure and single women) there were no significant differences in the success ratings assigned to each of these categories with mean probabilities for promotion reported at 78.15% and 78.68% respectively.

**Discussion**

The evidence presented here suggests that females’ partnership prospects are not compromised on the basis of their gender. Likewise, there would not appear to be an adverse bias against married and dual career women despite the literature which suggests that motherhood is considered in a negative light for women’s career advancement, as it is perceived that women are responsible for the rearing and caring of the children and will subsequently lack commitment and belonging. This would suggest that the traditional typology for gender as a social construction which recognises men as the family breadwinner and women’s role as being within the home, is becoming increasingly outdated.

This study provides evidence that there is no overt discrimination against women, even those with family responsibilities, in the promotion decision. However, it must be recognised that the women in Case 2 had obviously managed their career and home life in such a manner that enabled them to reach the level at which they could be considered for a partnership and once they had achieved this then they were treated equitably with their male colleagues. Therefore reaching this stage must be where the problem lies. Subsequent outcomes from the conflict between women’s desire to continue in their professional lives and their idealised view of motherhood include their progressive disappearance from the organisation, and self-exclusion from a potential partnership place by embarking on a slower ‘mummy track’ to achieve an acceptable work/family balance. The lack of women at partnership level therefore cannot be explained on the grounds that women are discriminated against simply on the basis of their gender or their family responsibilities. Instead, the absence of women at the top can be explained by the failure of women to get to that position and this is where further work needs to be carried out.
Exploring voluntary intellectual capital disclosure in the UK Higher Education sector

Sofia Yasmin and Ros Haniffa - University of Bradford

The increasing dependence on intangible assets by all organisations within the knowledge economy means that the monitoring, management and reporting of Intellectual Capital (IC) is crucial since this is where the ‘worth’ of the business lies. Research into IC gained impetus in the 1990’s, with the bulk of studies concentrating on identifying, measuring, managing and reporting of IC in business organisation. However, there has been a paucity of research examining IC in the knowledge sector, specifically universities. The UK university sector plays a significant role in the economy and a recent report on the UK HE sector suggested that universities in the UK are worth £59bn to the economy and create, directly or indirectly, over 668,500 jobs - or 2.6% of the workforce. Therefore, it is important that universities manage and report their IC not only to demonstrate accountability but also to gain competitive edge.

Our research study therefore sought to explore if and how higher education institutions in England were disclosing IC items within their annual reports. We also sought to assess if the extent and type of disclosure had varied over the years and if the disclosure was significantly different between ‘modern’ (post-92) and ‘old’ (pre-92) universities.

Content analysis was conducted on the annual reports of 30 universities over a period of five years to assess the type and amount of IC information being disclosed. Weighted scoring was used in line with previous studies. To aid analysis, IC disclosure was further broken down into three components for human, relational and structural IC.

Findings

The extent and type of IC information disclosed in the annual reports of universities in the UK

There was evidence of voluntary IC disclosure in the annual reports of the sampled universities. Human capital was found to be the most disclosed IC category. Structural capital was found to be the least and most poorly disclosed category. The majority of the relational capital information was included in other promotional material such as prospectuses. It is interesting to note that none of the universities investigated any specific framework for IC reporting resulting in no specific focus on IC within their reports. There were very few IC attributes that were quantified in currency terms with most items in the earlier years being discursive and then moving to quantitative-numerical in the latter years.

Change in IC disclosure practice between 2003 and 2007

It was found that the extent of disclosure had increased over the 5-year time period by 17%. The majority of the change was seen within the older universities compared to newer universities. The greatest increase in disclosure was for human capital items at 18%, followed by structural capital items at 17% and relational capital items at 16%. The increase in IC disclosure could be attributed to a number of factors: the increased focus on international students; the drive to win research funding; universities providing more degree courses; pressure from the government to increase student numbers; increase in development activities; and increased importance being placed on the annual reports.

Differences in the extent and type of disclosure between pre-92 and post-92 universities

The analysis between old and new universities indicates that there had been a significant but small change in IC disclosure over the years, with the mean difference in disclosure more than doubling from 2003 to 2007 in the case of old universities. The trends within categories have shown some surprising results. For the older universities, there has been a shift in focus from human capital to relational capital items, but for new universities, the emphasis has been on human capital items rather than relational capital. This may be due to differences in focus of the two types of university. Old universities tend to be more research focused and hence spend more money on attracting research funding. New universities pride themselves on being teaching focused universities and work hard to attract students and the right calibre teaching staff.

We believe there is potential to extend this exploratory project to include more universities within the UK with the potential of developing an IC disclosure framework for UK universities.
Do accounting rules influence the convertible bond issuance decision?

Chris Veld - University of Stirling
Marie Dutordoir - University of Manchester
Ming Dong - Schulich School of Business, Toronto

This feasibility study seeks to identify how the accounting treatment for convertible bonds affects the convertible bond issuance decision. The answer to this question is also relevant in a more general sense: to what extent do accounting rules influence decision making by businesses? For example, it is possible that companies use financial instruments, such as convertible bonds, in order to improve their balance sheet and/or their profit numbers.

We sent letters to four large UK companies that had recently issued convertibles. Out of these four companies, three were willing to cooperate. Interviews were undertaken with these three companies. The interviewees were asked whether accounting reasons played a role in the issuance decision and, if yes, whether the change in the accounting rules was considered to be positive, negative, or neutral. Interestingly, all three companies answered differently to the question.

The first company said it did not play a significant role for them. Their answer was:

_I can’t remember it featuring in any of the discussions. Clearly there has been a change there which has a not immaterial effect to the accounting itself but once again I would probably say that it’s not such a large piece of our portfolio that it’s something to dwell on too long._

The second company answered that the change in the rules made the convertible marginally less attractive, because the new split accounting rule reduces the apparent profitability of the company despite an advantage in the cash flow.

The third company stated that the new rule was more attractive, because it allows the company to account for the interest rate it effectively pays rather than having to account for the (lower) coupon interest. However, they also stated that the accounting treatment does not drive the transaction:

_I think that the accounting is completely right as a result of it, but that doesn’t drive the transaction. That is an outcome of the transaction._

Therefore, the opinions on this topic are divided and it is hoped that further follow-up interviews will shed more light on the question.

Prices leading earnings: the influence of quantity of mandatory disclosures

Yannis Tsalavoutas and Dionysia Dionysiou - University of Stirling

Given that one dimension of high quality reporting is high value relevance of accounting information and that the IASB and IFRS consider investors as the main users of financial statements, one would expect high compliance with IFRS mandatory disclosures to lead to higher predictability of future earnings. However, such an expectation has not been widely examined.

In this seedcorn study, we address this issue and aim to provide policy oriented findings. More specifically, we test whether Greek companies’ levels of compliance with all IFRS mandatory disclosures in 2005 affect the predictability of future earnings. Our sample consists of 141 listed companies on Athens Stock Exchange at the end of March 2006 and for which there is data available for the years between 2004 and 2009.

Our preliminary findings are somewhat counter intuitive. Current returns decrease, as IFRS mandatory disclosures increase. This finding seems to be against prior findings. However, the following needs to be taken into consideration. For the period under examination and the sample used, the aggregate future earnings experience a significant decrease. Accordingly, our results suggest that IFRS mandatory disclosure levels assist in the anticipation of the ‘bad’ future earnings news, bringing the future forward into current returns.

We intend to conduct robustness checks by examining the riskiness of the companies in the sample (expressed by the betas) in association with the disclosure levels. The expectation is to observe higher betas for high disclosure firms. This would confirm the hypothesis that mandatory disclosures deliver bad news to investors resulting in an increase in the companies’ riskiness and hence reduction in current earnings.
Exploring the process of identifying significant partnerships within UK Local Authorities

Lynne Barrow and Ros Haniffa - University of Bradford

Local Authority partnerships constitute a large part of the local economy. The National Audit Office (NAO) (2008) suggest there are currently 500 operational PFI projects in the UK with a combined capital value of £44 billion, and future payments across all PFI projects until 2031-32 total £91 billion in present value. Besides PFI partnerships, there are also contracts for goods and services, third sector, local strategic and business partnerships. The Audit Commission (2005) report that ‘at the last count, around 5,500 partnerships existed in the UK, accounting for some £4 billion of public expenditure’. In short, a wide range of partnerships exist in Local Authorities and they vary in size, service area, membership and function and there is a need to determine the effectiveness of such partnerships in delivering accountability to stakeholders.

Given the complex nature of the partnerships, the Audit Commission Comprehensive Area Assessment Framework (2008/09) required that all principal Local Authorities identify their significant partnerships (SPs). Yet, Local Authorities have not been provided with any clear guidelines for doing so. Therefore, this research sought to explore the process developed by Local Authorities to identify their SPs, and examine the types of SPs that exist within Local Authorities.

Data was collected from two case study authorities in the UK local government sector and a short email questionnaire was also sent to a sample of authorities taken from the Finance Advisory Network (FAN).

It was found that both case study authorities used the same scorecard adopted by the FAN. The scorecard used, was designed by one of the Local Authorities for assessing the significance of individual partnerships. The original scorecard ranks the significance of each partnership on the basis of six impact factors, namely: partnership costs; relationship to the strategic and corporate priorities of the authority; the consequences (financial/reputational/liability/political) for the authority of failures within the partnership; the extent to which the partnership takes decisions on behalf of or which are binding to the authority; the statutory or regulatory context i.e. whether the partnership is required by law, statutory guidance or the assessment regime, or whether it is needed to receive additional funding; and finally, the extent to which the partnership contributes to the management of risks identified on corporate or departmental risk registers. However, in 2010, one of the authorities added a seventh impact factor to the original scorecard, namely the contribution of the partnership to the delivery of Local Area Agreement (LAA) priority indicators/targets.

Both case study authorities have taken the decision to allow the individual Directorates (service areas) within each authority to assess the significance of the partnerships within their Directorate or service area. In each case, the Governance Unit or a Unit within the remit of Policy, Performance and Improvement (PPI) Directorate is expected to gather the data and provide an independent oversight of the assessments undertaken by each individual Directorate. However, we found that a clear and consistent independent review had not been carried out by either case study authority and the function performed by the Governance Unit or the PPI Unit is primarily a basic monitoring role of the data collected which is not questioned in any detail.

With regards to types of SPs, it was found that a wide range of SPs operate within UK Local Authorities. Through the application of the scorecard in 2008, the first case study organisation initially identified 48 SPs but reduced the number to 35 in 2010. In the second case study authority, the application of the scorecard in 2008 resulted in the identification of 23 SPs and 24 other partnerships. However, in 2010, the number of SPs has increased to 30. Interestingly, despite the application of an almost identical scorecard, the types of SPs identified vary significantly across the two case study authorities. This may partly be attributed to both case study authorities allowing each Directorate within their authority to self-assess the significance of partnerships. This resulted in one authority including certain charities, voluntary organisations and public private partnerships on the list of SPs while the other does not. This raises questions about the impartiality, transparency and comparability of information in respect of SPs across UK Local Authorities.
Corporate social responsibility of accounting firms offering taxation services

Stephen Littler and Angus Duff - University of West of Scotland

This seedcorn study considers conflicts arising from accounting firms offering tax avoidance services to clients while simultaneously undertaking Corporate Social Responsibility (CSR) activities. The investigation employs focus groups and in-depth interviews with a range of stakeholders, including representatives of the accounting profession, government, tax authorities, and tax students, on how tax reporting might relate to CSR within the accounting industry.

Interim findings

The interviews with stakeholders suggest that a conflict exists between the parties involved. Critics and the previous government consider tax avoidance to be unethical and argue that offering such services and claiming CSR is contradictory. From interviews with representatives of the previous government, it was clear that they were taking the issue very seriously by adopting a hard stance partnership approach with HMRC. They claimed to be desperate to improve the current amount lost in government income through tax avoidance, which is estimated as being anywhere between £3-13 billion per annum.

Perhaps unsurprisingly, students of tax and tax partners held a contrary view to Government and HMRC. Because tax avoidance is legal and CSR is not mandatory, all of the tax partners failed to agree that an ethical dimension exists. As one tax student in the pilot study said “we are being trained to be well calibrated instruments to make an organisation as profitable as possible”. It appears that this ideology has become ingrained into the subconscious of tax professionals and more needs to done to educate students further on the issue of ethics and morality. An expert lawyer in the field who was interviewed has begun running his own course on the issue due to the lack of training that exists at present.

Due to the nature and complexity of British tax law, deciding if tax avoidance is ethical appears to be down to individual opinion, background, and working environment. What has surfaced though is the amount of people involved in this study campaigning for tax to become part of CSR literature.

Two examples of frameworks to reduce conflicts have emerged. Country-by-country reporting is one idea whereby accountancy firms, but also the multi-nationals, report how much tax is paid, where it was paid and how it was booked. The previous government were keen on this idea being implemented but were also reviewing other alternatives. Secondly, PriceWaterhouseCoopers (PWC) introduced the Total Tax Contribution (TTC) framework in 2008 in an attempt to capture tax as a CSR issue. The TTC framework does not come without criticism but is an attempt by an accountancy firm to show that the link does exist. It attempts to capture how a large scale organisation can clearly transmit to the reader that multi-nationals are paying tax as they should. It comes at a time when the issue is coming under significant scrutiny.

Policy implications arising from initial findings

• The need for greater awareness of the use of aggressive artificial tax avoidance schemes, in the context of professional ethics.

• Government should work in partnership with accountancy firms, their clients and professional bodies to make clearer, straightforward laws that work and produce clear boundaries.

• Build on ethical tuition and encourage the integration of ethics within the tax curriculum.

• Develop models such as country-by-country reporting and Total Tax Contribution to improve transparency.

Additional interviews are currently being carried out to further this investigation.
ICAS hosting 2011 British Accounting Association Auditing Conference

ICAS is pleased to announce that it will be hosting the 2011 BAA Auditing Special Interest Group Conference at CA House in Edinburgh, on 12th and 13th May. The programme is currently being finalised but an excellent line up has so far been arranged.

Key note speakers will include:
- Nathalie de Basaldúa - Head of the Audit Policy Unit, EU Commission
- Arnold Schilder - Chairman, IAASB
- Douglas Nisbet - E&Y partner, ICAS past president and Chairman of the ICAS Future of Assurance Working Party

Panel sessions will be held on audit education issues and audit firm inspections and will include the following panellists:
- James Gunn - Technical Director, IFAC
- Steve Maijoor - Chair of IFIAR and Netherlands Authority for the Financial Markets
- Andrew Jones - Director, AIU/POB, UK
- Joanne Jamieson - ICAS Audit Monitoring
- Christine Helliar - University of Dundee
- Emer Curtis - National University of Ireland, Galway
- Brenda Porter - University of Exeter

For further information, please refer to the BAA website at: baa.group.shef.ac.uk or contact Ilias Basioudis at: i.g.basioudis@aston.ac.uk

IAAER 2010 conference

As we announced in our last Newsletter, ICAS is a gold sponsor of The International Association for Accounting Education and Research (IAAER) 11th World Congress of Accounting Educators and Researchers in Singapore on 4-6th November 2010. The mission of the IAAER is to promote excellence in accounting education and research on a worldwide basis and to maximize the contribution of accounting academics to the development and maintenance of high quality, globally recognized standards of accounting practice.

The conference is a two day event comprising plenary sessions and concurrent paper sessions which include refereed paper presentations, panel sessions and a paper forum. An ICAS symposium on the Future of Assurance will be held on 5th November at 1.30 pm.

David Wood, ICAS Executive Director, Technical Policy, will Chair the symposium and speakers will include Professor Ian Fraser, University of Stirling and Hans Verkrujge, Tilbury University and Ernst and Young Netherlands. ICAS representatives at the conference will include Mark Allison, Executive Director, CA Education, Ann Lamb, Director, CA Education and Michelle Crickett, Director, Research.

For further details see the IAAER congress website at: www.congress.iaaer.org
**Tax research wanted**

ICAS is sponsoring this year’s Tax Research Network 19th Annual Conference, being held on 7th and 8th of September at Bangor University, North Wales.

Derek Allen, ICAS Director of Taxation will be attending the conference and will be available for any questions during the two day event and at the doctoral colloquium on the 6th. Alternatively, you can email any questions to research@icas.org.uk.

ICAS is particularly interested in receiving research applications in the area of taxation. If you have any ideas for possible topics, please drop the Research Centre an email with an informal one page summary proposal.

Additionally, ICAS will shortly be issuing a call for research on tax simplification. If you would be interested in hearing more about this, and would like to register to receive this call, please email: research@icas.org.uk

**New style research reports**

Since our last Newsletter, we have issued the first of our new style research reports. These research reports are much shorter, at around 30,000 words, and we believe that these shorter reports will aid dissemination of research results. You can view our latest two new style reports at: [www.icas.org.uk/mckillop](http://www.icas.org.uk/mckillop) and [www.icas.org.uk/fraser-users](http://www.icas.org.uk/fraser-users) - feel free to let us know what you think.

**Impact of IFRS8**

The research team at Dundee University, who are currently undertaking an ICAS research project looking at the impact of IFRS8 (see page 10), has issued some interim findings, showing that IFRS8 implementation has actually seen an increase in the average number of both business and geographic segments disclosed. These findings will shortly be reported in CA Magazine - [www.camagonline.co.uk](http://www.camagonline.co.uk).

**Scotdoc 2010**

The fifteenth annual Scotdoc Conference was held in the new Postgraduate Centre at Heriot-Watt University on 9th June, hosted by Professor Robin Roslender of the Department of Accountancy, Economics and Finance.

The event attracted over 80 participants drawn from all thirteen Scottish university institutions currently providing doctoral training in accounting and finance. Thirty students took the opportunity to present their work to their peers in nine parallel sessions chaired by faculty involved in doctoral supervision within their own institutions.

The day followed the usual schedule in the morning, with a brief welcome from Professor Roslender, followed by the opening plenary. This year Professor Angus Duff, Research Advisor at ICAS and a professor at the University of the West of Scotland, talked to the theme: ‘Preparation is everything: planning and publishing your research (and getting your first job)’, promoting a lively exchange of views with participants. This was followed by the first set of parallel sessions.

Immediately following lunch, and prior to the remaining parallel sessions, there was a second plenary on the theme: ‘Growing Scotdoc’. The thirteen universities and ICAS are committed to extending the activities associated with Scotdoc, so took this opportunity to invite the student body to offer their thoughts on how this might be done. At the end of the session Professor David Power, Chair of the BAA Scottish Area Group, undertook to develop and circulate a questionnaire to all registered doctoral students in accounting and finance. The findings of this initiative will be discussed at the BAA(Scotland) conference being held at Glasgow Caledonian University on Monday 30th August 2010.

Next year’s Scotdoc event will be held at the University of Edinburgh, hosted by Professor Pauline Weetman.
**Forward planning, reporting back**

The ICAS Public Sector Committee has prepared a financial guide for non-executive directors of Scottish Government executive NDPBs, entitled *Forward planning, reporting back*. The guide is designed to support non-executives directors to gain a better understanding of the financial aspects of their role focusing primarily on the annual financial cycle from funding arrangements, budget setting and monitoring through to financial reporting. A number of interviews were conducted with non-executive directors and finance directors of NDPBs to inform the preparation of the guide.

Information on accounting matters in the guide reflects the implementation of IFRS by the UK public sector for periods commencing on, or after, 1st April 2009 and it is set in the context of the financial challenges currently faced by public bodies.

*Forward planning, reporting back* will be published shortly and will be available to download free of charge from the ICAS website.

**Future of assurance**

ICAS has established a *Future of Assurance Working Party*. The Working Party builds on recent ICAS initiatives on assurance, including the publication of the Fraser et al. research report (see page three). The Working Party is chaired by Douglas Nisbet, past president of ICAS and an E&Y partner, and also includes representatives from academia, industry, practice, the investment community, regulatory bodies, politics and the media. The group expect to report their results in late 2010/early 2011.

The Working Party, as well as focusing on the future development of assurance over the medium to longer term, will also contribute to ICAS’ responses to current consultations and inquiries such as:

- the House of Lords’ Inquiry into auditing;
- the EU Green Paper on auditing, expected some time this autumn;
- the FSA/FRC paper on enhancing the auditor’s contribution to prudential regulation; and
- the APB’s discussion paper on audit scepticism.

**New charities research resource**

The ICAS Charities Committee has developed a web based resource for members and others involved with charities - ‘the Charities’ Area’.

The pace of legal and regulatory change, intended to give members of the public greater confidence in the charity sector, prompted the development of the Charities’ Area as a means of supporting the many ICAS members who are involved with charities in whatever capacity.

The Charities’ Area highlights charities news items on topics relevant to the accountancy profession, provides information on charities and the law, and signposts guidance on accounting, external scrutiny, regulatory matters and governance issues. The information on the Charities’ Area is also available to the public and will be a useful resource for charity trustees and anyone interested in charity governance and regulation.

Visit the website at: [www.icas.org.uk/charities](http://www.icas.org.uk/charities)
Chinese accounting reform: Towards a principles-based global regime

Michelle Crickett, ICAS Director of Research reports

In 2006, The Institute of Chartered Accountants of Scotland (ICAS) published its seminal report Principles Not Rules: A Question of Judgement. That report set out the case for a single, global accounting regime based predominantly on high level principles rather than many detailed rules. The principles-rules debate is frequently and wrongly characterised as a transatlantic discussion about the relative merits of US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). But if we are truly to develop a single accounting language for the world, we must broaden the debate beyond simply Europe and the US.

ICAS, keen to embrace China in the debate on the development of financial reporting standards, established a working party to undertake an interview based project with key stakeholders in financial reporting in China. The aims of the project were to understand the issues and challenges associated with the implementation of IFRS/principles-based standards, as well as to solicit views on principles-based accounting standards generally.

The resultant report Chinese accounting reform: Towards a principles-based global regime has now been published. With the assistance of the Chinese Ministry of Finance, a Chinese language version of the report has also been published and the report was launched in Beijing on 30th June.

In February 2006, the Chinese Ministry of Finance announced the introduction of an entirely new regime of Chinese Accounting Standards based explicitly on IFRS. Although many people would not define IFRS as a wholly principles-based accounting regime, IFRS is used in this study as a proxy for a principles-based system. The experience of implementation of IFRS in China is particularly interesting as China was moving from a ‘rules-based’ to a more ‘principles-based’ regime.

The introduction of the new Chinese Accounting Standards marked a watershed moment not only for China but also in the development of accounting standards more widely. For China, the new standards represented a radically different approach at a time of fast-moving reform in the economy. The magnitude of this step cannot be overstated. But the explicit recognition of IFRS by China also marks a significant step on the road towards a single, global accounting language. Based on the interviews, it is clear that global convergence of financial reporting is unlikely to be achieved without the simplification of IFRS and a move towards a more principles-based approach.

The most challenging aspect of operating in a principles-based environment is the need to apply professional judgement effectively, consistently and fairly. To support such an environment, accounting professionals have to be trained, ethics have to be upheld and additional guidance must be provided to make principles operational. Furthermore, all stakeholders need to recognise their responsibility for making and accepting judgements. As indicated in our recommendations, there remains work to be done – not least in terms of ensuring that all accountants, and especially those who are used only to applying rules under the old accounting system, develop the business experience associated with the workings of a market economy. However, we found that Chinese stakeholders recognise these issues and have sought to address them on a scale which is both impressive and difficult to comprehend. The implementation effort has been remarkable.

Our most striking finding is the strength of official support and commitment to principles-based accounting, led by the Ministry of Finance. It is unlikely that China will give up all accounting sovereignty in the near future and consideration should be given to whether China is obtaining the benefits of compliance with a single set of global financial reporting standards as a result of not being able to claim full adoption of IFRS. But China’s efforts in implementing an IFRS-based regime give cause to hope that the goal of a single accounting language is truly within reach.

Although some of the recommendations arising from the report are specific to China, others have a much wider significance to the development of a global accounting principles-based regime. The full list of recommendations can be viewed in the executive summary of the report, available at:

www.icas.org.uk/chineseaccountingreform

The working party members were: Hugh Shields, Head of External Reporting, Deutsche Bank; Professor Christine Helliar, Dean, School of Accounting and Finance, University of Dundee; David Wood, Executive Director, Technical Policy, ICAS; and Michelle Crickett, Director of Research, ICAS
Dates for your diary

7th - 8th September 2010
Tax Research Network Conference
Bangor University, North Wales.
w: www2.warwick.ac.uk/fac/soc/wbs/research/trn/events/currentconference
e: l.hodgkinson@bangor.ac.uk

4th - 6th November 2010
IAAER World Congress of Accounting Educators and Researchers
Singapore Management University
w: www.congress.iaaer.org.uk
e: admin@iaaer.org

9th December 2010
2nd Emerging Scholars in Banking and Finance Conference
Cass Business School, London
w: www.cass.city.ac.uk/conferences/2ndEmergingScholars
e: bankingcentre@city.ac.uk

Applications for research funding

ICAS is committed to supporting and encouraging high quality research which is timely, relevant to the public interest and useful to the accounting profession.

If you would like informal feedback on a research proposal, please contact Angus or Michelle at the Research Centre.

For details of our application process, please contact the Research Centre or visit our website at www.icas.org.uk/researchfunding
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