



International Federation of Accountants

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Agenda Item 5

Committee: IAASB
Meeting Location: New York
Meeting Date: March 16-19, 2009

IAAER Research Grant Proposal

Objective of Agenda Item

1. To advise on possible research topics and the way forward in response to a proposal by the International Association for Accounting Education and Research (IAAER) to commission academic research relevant to the work of the IAASB.

Background

2. The IAAER has recently coordinated efforts with the Association of Chartered Certified Accountants (ACCA) and the International Accounting Education Standards Board (IAESB) to commission four research projects that are intended to help the IAESB by providing evidence on the acceptance, implementation, and impact of accounting education standards throughout the world. For information, Agenda Item 5-A includes the IAAER-ACCA-IAESB call for research proposals.
3. Following from this successful collaboration, the IAAER has proposed to fund a similar grant program for research to inform the IAASB decision process. £120,000 has been committed for this purpose specifically for the period 2010-2011 (£60,000 each year). The maximum per grant amount has been set at £24,000.
4. The IAAER is keen to work with the IAASB to plan a research grant program that will benefit the IAASB. It is flexible in terms of how the program is to be arranged and research topics to be addressed. Ideally, the IAAER would like to issue a call for research proposals in April 2009 (subject to agreement by the IAASB to work with the IAAER on this initiative). It is anticipated that research findings would be presented to the IAASB and at suitably high-profile conferences, as appropriate.

Matters for Consideration

5. This is an excellent opportunity to obtain the input of the international academic community to the work of the IAASB. The key question, however, is what topics for research should be suggested and how they should relate to the work program of the IAASB. The following considerations are relevant:
 - Interim research findings would likely only be available by mid- or late 2010 at the earliest, with final reports available towards late 2011. Any call for research proposals should therefore not tie too closely to subjects on which IAASB's deliberations are

expected to be significantly progressed or completed by that time, to avoid the risk of inadvertently delaying IAASB's work. Notwithstanding this, a fair degree of alignment with IAASB's strategic priorities would make sense if the research is to be of relevance.

- IAASB's endorsement of a call for proposals may imply that the IAASB will or intends to undertake standard-setting in relation to the topics selected for research. This would not necessarily be the case and would therefore need to be made clear in the communications to be agreed.
- Research should be international in nature and international research teams should be encouraged. This would need to be a key feature in the call for research proposals and in the criteria for evaluating proposals.
- Research topics need to be practicable, with the goal of having findings usable from both a medium and longer term perspective. Accordingly, it may be desirable to suggest a preference for practical research through experiments on current or proposed practices, surveys, or comparative studies and synthesis work that brings an international dimension.
- It needs to be recognized that, historically in some cases, it has been difficult for researchers to obtain access to material or individuals within public accounting firms, for example. This limitation may affect the viability of a particular research project or the usefulness of output if it is not carefully considered in advance. IAASB involvement may help enhance the perceived relevance and credibility of the research effort.

Possible Research Topics and Issues

6. Having regard to IAASB's *Strategy and Work Program, 2009-2011*, there are three general themes that might provide a basis for possible research topics. These are as follows:
 - (i) Trends and developments in financial reporting and their implications;
 - (ii) International convergence, and developing a better understanding of the effectiveness of ISAs and their implementation in the context of both capital and smaller entity markets; and
 - (iii) Conceptual foundations underpinning assurance and audit engagements.
7. For each of the above, possible research issues include:

Trends and Developments in Financial Reporting

- (i) What are users' perceptions of the reliability of financial information filed in XBRL format and of the assurance (whether or not in fact provided) attaching to data in XBRL form? How (if at all) do current audit and assurance reporting standards apply in the context of XBRL data, given that their development did not contemplate the enhanced consumer access, tailoring and reuse of individual information elements that are provided through XBRL?

- (ii) What are the major challenges faced by auditors, and the different audit approaches that are being taken, in connection with the evaluation of management judgments for fair value estimates (and related disclosures) that are not determined based on observable inputs, and in deciding whether sufficient and appropriate audit evidence has been obtained? To what extent do audit procedures to obtain evidence about observable and unobservable inputs, or auditors' assessment of internal control, differ between accounting estimates and fair value estimates? How do the efforts of management, auditors, and those charged with governance differ with respect to determining the "right number" versus evaluating the reasonableness of the process followed?
- (iii) What is the current state globally of mandatory requirements (regulatory or otherwise) for reporting on the effectiveness of internal control? What differences exist with respect to criteria for reporting deficiencies in internal control, and how do they affect what is communicated to those charged with governance, management and users of the financial statements?
- (iv) What key variables affect judgments by auditors regarding the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern? In general, what are users' perceptions with respect to the inclusion (or not) of Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor's report?

International Convergence and Implementation

- (v) How does adoption of, or convergence with, ISAs differ across jurisdictions? What public interest factors, including cultural, economic, or regulatory differences, enhance or impede effective adoption?
- (vi) What are the roles of regulators, national standard setters, public accounting firms, professional associations, and academia in national implementation of ISAs? What institutions and organizations have a comparative advantage in providing implementation support, and why?

Conceptual Foundations

- (vii) What is the current state of assurance services that are an alternative to an audit of financial statements or otherwise? What factors have enhanced or hindered the demand for or acceptability of such services? What alternative models offer a possible solution?
- (viii) How does the perceived degree of assurance, if any, by client-users and end-users vary across practitioner reports arising from compilation, review and audit engagements? How do different independence requirements affect these perceptions or the ability of practitioners to provide services that are an alternative to an audit?

8. The above excludes the matter of further research on ISA 700,¹ specifically initiatives that may be covered by either Phase I or Phase II of the research effort by the American Institute of Certified Professional Accountants, IAASB and American Accounting Association. It is for discussion whether some coordination of effort would be desirable. In any case, reference to the ISA 700 research project would be mentioned in any call for research proposals, to avoid overlap.

Way Forward

9. It is recommended that the IAASB pursue this opportunity to work with the IAAER.
10. From a process point of view, it is anticipated that two IAASB representatives and a member of Staff would be asked to participate in a joint IAAER-IAASB Program Advisory Committee over the duration of the program, including involvement in the proposal review and selection exercise. It is also anticipated that the call for research proposals program would involve a two-stage approach, whereby finalists can revise initial proposals in response to input received from the Program Advisory Committee before a final selection is determined.

Material Presented

Agenda Item 5-A	Call for Research Proposals – International Accounting Education Standards
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Action Requested

The IAASB is asked to agree to work cooperatively with the IAAER on this initiative and for its input on the types of research questions that should be considered.

¹ ISA 700, “Forming an Opinion and Reporting on Financial Statements.”