

IAAER Research Feedback

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Agenda

- Introduction
 - International Association for Accounting Education and Research (IAAER)
 - IAAER-KPMG-IAASB call for research “Informing the IAASB Standard Setting Process Research Program”
- Research Findings
 - Auditor Reporting
 - Integrated Reporting
 - Professional Skepticism
- Recommendations from Researchers to the IAASB

Introduction: IAAER

- Mission: 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.
- Activities include:
 - Objective, research-based, academic voice to the development of international accounting and auditing standards.
 - Active participation in IAESB CAG, the IASCF's Education Advisory Group, and IASB's Standards Advisory Council.
 - Commissioning research projects that contribute to the development of advances in international accounting and educational standards
 - IAAER website: www.iaaer.org

IAAER-KPMG-IAASB “Informing the IAASB Standard Setting Process Research Program”

- Sponsor: KPMG International and the KPMG Foundation
- Coordination: IAAER
- Project Advisory Committee: IAAER-KPMG-IAASB

Call for research addressing:

- The implications of trends and developments in financial and corporate reporting on auditing, other assurance and related services;
- Conceptual aspects of assurance standards; and
- International adoption and implementation of its international standards

Research Updates

- Five Research Proposals Selected:
 - Auditor Reporting (1), Integrated Reporting (2), Professional Skepticism (2)
- The research took place between December 2012 and December 2014 with three milestones for deliverables:
 - Spring 2013: Presentation of the research design and interim research results
 - Fall 2013: Presentation interim results
 - Fall 2014: Presentation final research results during a workshop at the IAAER World Congress

Research Objectives and Design

- Objective: How highlighting information in the auditor's reports affects investors' information acquisition
- Research Design: Laboratory experiment using eye-tracking technology (N=98 post-graduate accounting students) followed by seven post-experimental questions to capture users' perception of the audit
 - Hypotheses based on cognitive psychology
- Advantage: Ability to objectively and precisely measure:
 - Users' attention to specific information
 - Search patterns when navigating across those statements

Findings and Implications

- KAMs impact readers' information search pattern and increase their attention level to matters reported on
 - Implication: less attention is paid to matters not reported on as KAM
- The greater number of KAMs reported mitigates the attention devoted to matters highlighted by the auditor
 - Implication: auditors must choose carefully the KAMs to report
- Reporting KAMs negatively impacts readers' perception of “uniform audit assurance”
 - Implication: potentially increases the “expectations gap” and confusion over the audit performed
- When only one KAM is reported, readers' assessment of audit quality is lower
 - Implication: Reporting audit procedures performed for specific KAM has no impact

Research Objectives and Design

- Examine two factors that are predicted to influence auditors' non-financial performance indicator (NFPI) materiality judgments in the context of Integrated Reporting:
 - the level of strategic relevance associated with the NFPI being assessed
 - the presence of strategic linkages in the client's performance measurement system.
 - The impact on these judgments of the intended report user
- Research Design:
 - Controlled experiment (77 professional auditors) and one-on-one interviews (6 audit managers/partners)

Findings and Implications

- Auditors did not distinguish between strategically relevant and non-strategically relevant information in setting their materiality thresholds.
- When judging whether an identified NFPI misstatement is material:
 - The presence of strategic linkages in the clients PMS increases the salience of strategically relevant NFPI to the auditor, and in turn leads auditors to judge misstated NFPI of high strategic relevance to be more material than misstated NFPI with low strategic relevance.
 - In the absence of such strategic linkages auditors were not able to differentially assess materiality between strategically relevant and non-strategically relevant misstated NFPI.
- Implication: standard setters may need to develop further guidance for auditors in determining audit materiality to ensure auditors specifically consider the strategic relevance of reported information

Research Objectives and Design

- Implications of Integrated Reporting Assurance on Investor Judgment:
 - Whether assurance on non-financial information in an Integrated Report impacts investor judgment
 - Influence of assurance level on investor judgment
 - Influence of assurance report details on investor judgment
 - Impact of presenting non-financial information assurance as a separate report or combined with financial audit report
- Research Design
 - Controlled experiment with 766 non-professional investors

Findings

- Assurance level for non-financial information influences investor judgments when
 - financial and non-financial information is presented in an integrated report, rather than this information is presented in separate reports.
 - assurance reports on financial and non-financial information are presented separately, as opposed to in a combined report format.
 - In both situations, desirability and investment amount judgments are higher in the presence of limited, as opposed to reasonable assurance
- Level of detail presented in the non-financial information assurance report does not influence investor judgments

Implications

- Need to further investigate wording of reasonable assurance report and message that such reports convey to investors
- Need to consider developing more guidance on how to conduct reasonable assurance review of non-financial information as investors may not feel confident with the current lack of procedures
- Take into account that non-professional investors may not be familiar with assurance on non-financial information
- Grouping non-financial information assurance opinion with the financial statement audit report in combined report may be too complex for non-professional investors to understand

Research Objectives and Design

- Examine whether hindsight bias in the evaluation process may be a substantial barrier to professional skepticism
- Research Design:
 - Controlled experiment (75 practicing audit seniors) were asked to evaluate the performance of a hypothetical staff auditor
 - Survey examining auditors' perceptions on how the outcome of investigating an inconsistency affects how they are evaluated (senior auditors (75), Masters of Accounting students with internship experience (43) and with no audit experience (93))

Findings and Implications

- Bias within the evaluation and reward system may negatively impact audit quality by unintentionally discouraging auditors adhering:
 - Supervisors evaluate audit staff less favorably when they follow the guidance of ISA 200 and ISA 240 by exercising an appropriate level of professional skepticism and do not find a misstatement (experiment)
 - Even when audit committees are supportive, supervisors still use hindsight bias evaluating of audit staff
 - Auditors (and future auditors) anticipate evaluators employing hindsight bias (survey)
- Consequently, auditors may choose not to exercise skepticism in order to avoid negative evaluations

Research Objectives and Design

- Skepticism Traits in Auditing Financial Statements
 - To examine effects of professional skepticism traits on auditors' assessment of fraud risk
 - To examine effects of organizational cultural environment on auditors' assessment of fraud risk, and to analyze its moderating effects on the relationships between professional skepticism traits and auditors' assessment of fraud risk
 - To gain an in-depth understanding on the development of professional skepticism attitude among auditors
- Research Design: Survey (N= 431 to auditors from 4 countries in Asiapac/Jordan) and focus group discussions (N=15 auditors in total) interpretive approach/social learning theory

Findings and Implications

- Significant positive effect of PS on fraud risk assessment of auditors evident with respect to questioning mind, searching for knowledge, self-confidence and self-determining traits.
 - Implication: Clearer definition PS and broaden its scope to include searching for knowledge, self-confidence and self-determining traits; and review of the International Standard of Quality Control (ISQC) to include clearer provision for the requirements of the practice of PS by audit firms
- No significant influence of organizational cultural environment on auditors' fraud risk assessment either directly or in moderating the way auditors integrate PS in their actions.

Findings and Implications

- Knowledge on PS accumulated through the articulation and appropriation of experience in the workplace
 - Implication: Guidelines on the application of PS by providing relevant illustrations for each identified traits of PS
 - Implication: Social learning process such as in-house training and proper education, or on the job coaching such as internal inspection, peer review, and mentoring)
- Bundling of services and time pressure are two impeding factors that may challenge auditors in making independent fraud risk assessment.
 - Implication: Enhance their auditors' PS through better internal audit procedures such as internal inspection and peer-review

IAAER-ICAS-IAASB Round 3

- Call for proposals End Q1/Beginning Q2
- Four projects will be selected and will start November/December 2015
- Interim Research Findings in 2016
- Final Research Results in 2017



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