

The background of the slide features a stylized world map in shades of gray. Overlaid on the map are several curved lines: a thick black arc, a red arc, and several dotted lines in white, orange, red, and blue. These lines sweep across the map, suggesting global connectivity or the international nature of the standards.

IFRS® Foundation

# IASB, IFRS Standards and Research Opportunities

30 October 2020

Ann Tarca  
IASB Member

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# IFRS Foundation and International Accounting Standards Board (IASB)

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- The IFRS® Foundation
  - not-for-profit international organisation
  - responsible for developing a single set of high-quality global accounting standards (IFRS Standards).
  - IASB is the standard setting board.
- Our mission is
  - to develop standards that bring transparency, accountability and efficiency to financial markets around the world.
- Our work serves the public interest
  - by fostering trust, growth and long-term financial stability in the global economy.
- IFRS Standards are used in more than 140 countries.

# IASB and research

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- IASB is required to undertake evidence-based standard setting
- We collect evidence from:
  - Outreach with stakeholders
  - Meetings with consultative groups and national standard setters
  - Staff research
  - Focus groups, field testing
  - Public reports eg accounting firms, security market regulators
  - External research eg academic research

# IASB and research

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- Evidence feeds into the standard setting process from the beginning
  - What is the problem to be solved?
  - Nature, extent, pervasiveness, importance, impact.
- Staff prepare a literature review as part of the project
  - Eg Primary financial statements, Goodwill and impairment, Extractive activities
- Academic evidence is included in the post-implementation of Standards
  - Is the Standard working as intended?
  - IFRS 8, IFRS 13, IFRS 3.

## Post-implementation reviews

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- New Standards bring many changes to accounting and financial reporting
  - IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.
- Studies that provide evidence about the impact of these changes will be helpful. Studies may use a range of methods.
- Pre and post application: what changes in accounting practice are observed. What are the financial impacts of the changes.
- What are the effects for market participants of the changes. What market outcomes are observed.
- For specific issues and research questions – see following slides

# Research Opportunities IFRS 9 (1)

- New expected credit loss model
  - What is impact on reported numbers and financial ratios.
  - How do entities, industries and countries compare in their application of the model.
  - In the long term, how does better measurement of impairment contribute to goals such as financial stability.
- There is no available for sale category
  - How many entities are affected by this change. What new policies are used.
  - How many entities make use of the FVOCI election. What are the characteristics of these entities.
  - How do investors respond to choices made.
- What is the impact of new hedging requirements
  - What are investor or market impacts.
  - What is extent of adoption of new requirements compared to continuing to use IAS 39 requirements.

## Research Opportunities IFRS 9 (2)

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- What transition arrangements have entities adopted
  - Consider ECL and hedge/accounting risk management separately.
  - What are characteristics of entities making various choices.
  - Are any market impacts observable in relation to choices.
  
- More disclosures are provided under IFRS 7
  - More objective based disclosure requirements.
  - Can researchers observe changes in entities' disclosures because the drafting of disclosure requirements are different.
  - What factors are associated with better disclosures under IFRS 7.
  - Are costs or benefits of better disclosure observable.

## Research opportunities IFRS 15 (1)

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- What are the financial impacts of the new standard. How do industries and countries differ.
- How does point in time and over time revenue recognition change pre/post application. Do companies use the same or different patterns of revenue recognition.
- New guidance related to many issues. eg licences of intellectual property. What is the impact. Is diversity reduced.



## Research opportunities IFRS 15 (2)

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- What choices were made on transition.
  - How many entities used the modified retrospective approach. Was this beneficial for investors.
- What was the impact when entities used the modified retrospective approach with an overlay of practical expediciencies.
- How have IFRS 15 disclosures (which are different to IAS 11, IAS 18) benefited analysts and investors.
  - Are disclosures more specific and more useful.
- Does the standard get the right balance of disclosure objectives and disclosure requirements.

## Research opportunities IFRS 16 (1)

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- What are investor reactions/capital market benefits of the changes to recognition and disclosure.
- In what ways has the comparability of lease accounting improved for IFRS adopting entities in different industries and countries.
- Is there any evidence of behavioural change, eg given greater comparability between leasing and buying, have companies decided to buy assets rather than lease them
- Long term: do investors benefit from more capitalisation of leases.

## Research opportunities IFRS 16 (2)

- On transition:
  - What is the financial impact, observable in the financial statements, of the capitalisation of leases. What are the impacts on financial ratios.
  - How do observed effects compare with expected effects (based on previous operating lease note disclosures).
- What is observed about choices on transition and the usefulness of transition disclosures.
  - What are the attributes of entities making various choices and providing more useful disclosures.
- In what ways are IFRS 16 disclosures useful for investors.
  - How are companies meeting the disclosure *objectives* of the Standard.

## In conclusion...

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- IASB seeks consistent application of Standards, which reflect economic fundamentals
- IASB is seeking evidence of impact
  - For preparers, auditors, investors, regulators
  - Capital market impact; also application issues
  - Post implementation reviews around 3 years after implementation
  - Range of research methods will be useful
- Researchers can benefit from the experience of investigating 2005 adoption effects

# Relevant materials

- *IFRS 9*
- Overview: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/>
- List of supporting materials: <https://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-9/#webcasts>
  - Project Summary: <https://www.ifrs.org/-/media/project/financial-instruments/project-summaries/ifrs-9-project-summary-july-2014.pdf>
  - Articles: <https://www.ifrs.org/-/media/feature/resources-for/investors/investor-perspectives/investor-perspective-jul-2014.pdf>
- <https://www.ifrs.org/-/media/project/financial-instruments/features/article-by-sue-lloyd-big-changes-ahead-march-2015.pdf>
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# Relevant materials

- *IFRS 15*
- Overview: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/>
- List of supporting materials: <https://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-15/#education>
  - Project Summary and Feedback Statement: <https://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-15/#education>
  - Articles: <https://www.ifrs.org/-/media/feature/resources-for/investors/investor-perspectives/investor-perspective-jun-2014-1.pdf>
- <https://www.ifrs.org/news-and-events/2016/04/ian-mackintosh-amendments-revenue-standard/>
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# Relevant materials

- *IFRS 16*
- Overview: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-16-leases/>
- List of supporting materials: <https://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-16/>
  - Effects Analysis: <https://www.ifrs.org/-/media/project/leases/ifrs/published-documents/ifrs16-effects-analysis.pdf>
  - Project Summary and Feedback Statement: <https://www.ifrs.org/-/media/project/leases/ifrs/published-documents/ifrs16-project-summary.pdf>
  - Articles: <https://www.ifrs.org/-/media/feature/resources-for-investors/investor-perspectives/investor-perspective-jan-2016.pdf>
- <https://www.ifrs.org/news-and-events/2016/03/hans-hoogervorst-article-shining-the-light-on-leases>
- <https://www.ifrs.org/-/media/project/leases/ifrs/educational-materials/ifrs16-leases-article-jan2017.pdf>
- <https://www.ifrs.org/news-and-events/2016/01/gary-kabureck-article-little-to-fear-in-new-world-of-lease-accounting/>
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## Find us online

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# IMPACTFUL RESEARCH INFORMING & ACCOUNTING & AUDITING STANDARD SETTING



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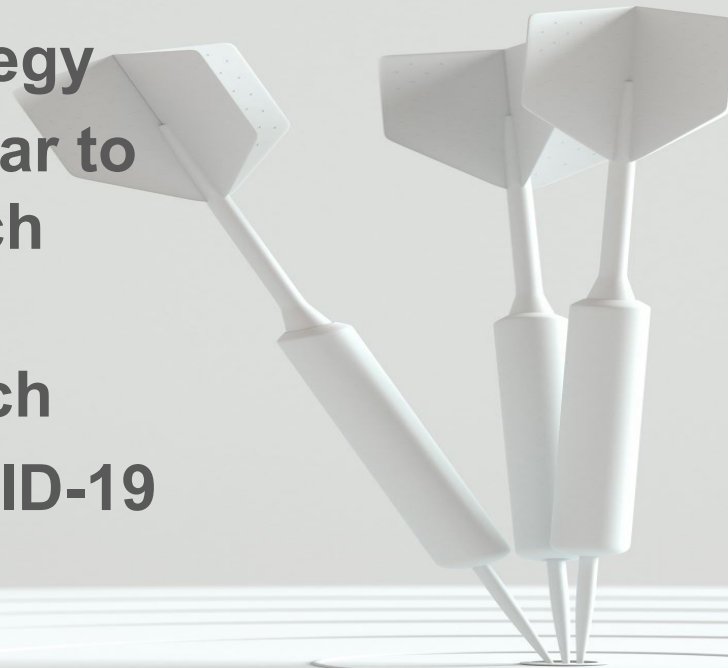
# Developments in Auditing – The role of academic research

**Presented by:**  
**Roger Simnett, IAASB Member**  
**Chair and CEO AUASB**

**World Class Professor (WCP)**  
**October 30, 2020**  
**Webinar**

## What We Will Cover Today

- **IAASB's Work Program – Transitioning to Our New Strategy**
- **IAASB's Focus Areas in the Near to Medium-Term, creating research opportunities**
- **Trends in International Research**
- **The IAASB's Response to COVID-19**



## Work Plan – Transitioning to Our New Strategy

### Setting the Foundation

2015 -  
2019

Risk Identification and Assessment

Auditing Accounting Estimates

Group Audits

Auditor Reporting Standards

Quality Management Standards

Implementation Activities

Agreed-upon Procedures

### Maintaining Relevance / Public Interest

2020 -  
2023

Going Concern and Fraud

Audit Evidence

Post-implementation Reviews

Addressing Complexity,  
Understandability Scalability and  
Proportionality of our Standards

Non-Financial Reporting - Extended  
External Reporting

Technology / Disruptive Technology

**The IAASB strategy provides a clear vision for navigating the challenges identified, a lens for prioritization, and a mechanism to provide public accountability for achieving our goals.**



## Fraud and Going Concern – Key Public Interest Topics

- **Fraud**
  - Explore **auditor's responsibilities for detecting fraud**
    - **Expectation gap**
    - Does the auditor need to do more – if so, what?
  - Is more **transparency** needed about what has been done
- **Going Concern**
  - Challenges around **inherent material uncertainties**
  - Expectations around **different concepts of resilience**
  - More **transparency** needed in auditor's report?

### Views?

What are the drivers of the expectation gap and what can be done to address these?

#### FINANCIAL REPORTING ECOSYSTEM



Entity and its  
management (i.e.  
preparers)



Boards and audit  
committees



External Auditors



Governments, regulators,  
professional bodies, and  
standard-setters



Investors, analysts, lenders,  
consumers, the public, and  
other stakeholders (i.e.,  
users)

## Other Assurance – Non-Financial Information (NFI)

### Authoritative

- ISAE 3410 – Assurance on Greenhouse Gas Statements



**ISAE 3000  
Assurance  
Engagements**

### Non-Authoritative

- Extended Emerging Reporting (EER) Guidance (finalized early 2021)
- Staff Alert on Climate Change
- Other?



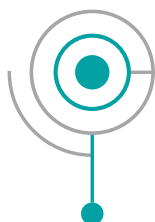
**Views?**

**What other areas of NFI should the IAASB be focusing on?**



# Technology—Maintaining Relevance and Innovation

## Immediate Response

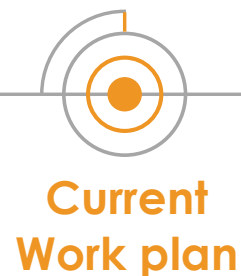


**Technology Working Group**

### Non-Authoritative Guidance

- Audit documentation when using automated tools and techniques (ATT) (April 2020)
- FAQ – Use of ATT in identifying and assessing RoMM
- FAQ – Use of ATT in performing audit procedures

**Additional documents to be issued**



- Revision of Audit Evidence standard
- Ongoing consideration in other IAASB projects
- Founder's Intelligence to Understand Current and Future Challenges
- Digital handbook

## Long term strategy



**Disruption in Audit and Assurance**



**Redefined Profession of Audit and Assurance**



**Continuous and Real Time Audit and Assurance**



**Analytics Based Audit and Assurance**



**Remote Audit and Assurance**



## Understanding the Implementation of the Auditor Reporting Standards

### • Key Changes

- New section with **key audit matters** (KAM/CAM)
  - To provide more transparency into the audit
- Enhanced reporting on going concern
  - **Material uncertainties** when there is a going concern issue
- **Auditor independence**—new affirmative statement
- Enhanced description of auditor's responsibilities

### • Intended Benefits

- Enhanced **communicative value to users**
- More **robust communications** among investors, TCWG and auditors
- Increased **attention** by management and TCWG **to disclosures** referred to in KAMs/CAMs
- Enhanced **professional skepticism** in areas where KAM are identified

Post-Implementation Review—Stakeholder survey is still open  
Your input is valued!

### Views?

- Have the intended benefits been achieved?
- Are other enhancements needed to increase the informational value of the auditor's report?



## Trends in International Archival and Behavioral Research

**Archival: (Simnett Carson and VanStraelen AJPT 2016).** Sample encompasses 130 articles from 1995-2014 in 8 leading accounting and auditing journals:.

- Only 10 of 130 refer to auditing standards,
- Only 6 of 130 refer to non-financial statement audit
- Archival tends to concentrate on inputs and outputs stages of IPO,
- Audit quality metrics. IAASB less interested in audit fees
- Data bases getting better

• **Behavioral: (Simnett and Trotman BRIA, 2018)** Sample encompasses 468 articles from 1991-2015 in 10 leading accounting and auditing journals:

- Much higher referencing on international auditing standards, about 40%
  - Emphasis on process stage of IPO
  - Less controlled experimental design, less access to senior auditors
-

## Evidence informing – Lessons from trends for auditing

### Learnings for academics

- Complimentary research methods
- Researchers have not clearly articulated why the research is of interest to the audit firms, standard-setters, and regulators. These are our natural domain of influence:
  - Very few studies refer to auditing standards and regulation.
  - Most of those that do refer to this work in motivation, not in method, results or conclusion.
  - Implications are very generic rather than specific.

## The IAASB's Response to COVID-19

- **Adapt**

- Changes to work plan and consultations
- Virtual Board meetings

- **Assist**

- Quick to Market: Staff Alerts (continue to monitor if more is needed)

- **Coordinate**

- Relevant stakeholders (IFAC, NSS, Regulators, accounting firms , etc.)

## What We Have Learned

- Principles based auditing Standards have stood up well
- Identified challenges around validity of **audit evidence in new virtual environment**
- Need for **focus on controls throughout the year** – in particular the changeover period when lockdowns start **Going concern** continues to be challenging
- Auditor reporting may be complex in **close calls situations**



COVID-19



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