

Focus on Research

The research newsletter of The Institute of Chartered Accountants of Scotland



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- NEW ICAS RESEARCH APPOINTMENT
- NEW CORPORATE GOVERNANCE RESEARCH
- NEW CORPORATE SHARE REPURCHASES STUDY
- NEW CHARITIES RESEARCH



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THE RESEARCH TEAM



Professor Angus Duff
Research Adviser



Michelle Crickett
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EDITORIAL

Dear colleague

Welcome to the latest edition of *Focus on Research* – we hope you have had a lovely summer.

We would like to begin by welcoming Angus Duff as the new ICAS Research Adviser and to his very first edition of *Focus*! We would also like to say a fond farewell to Christine Helliar.

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.

We have published three new reports since our last newsletter in April, one on charities, one on corporate governance and one on corporate share repurchases. All of these reports are available to download free of charge on the website and are profiled on pages 3 to 5. 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.

In April this year we received the sad news that Dr David Molyneaux had passed away. Working with David on his 2008 ethics study was a real pleasure for all of us involved, and he will be greatly missed here at ICAS. All who knew David will recognise his qualities when reading the memoriam article by John Sturrock QC on pages 17 and 18.

The ICAS Research Team

New books published

An Exploration of Scottish Charities' Governance and Accountability

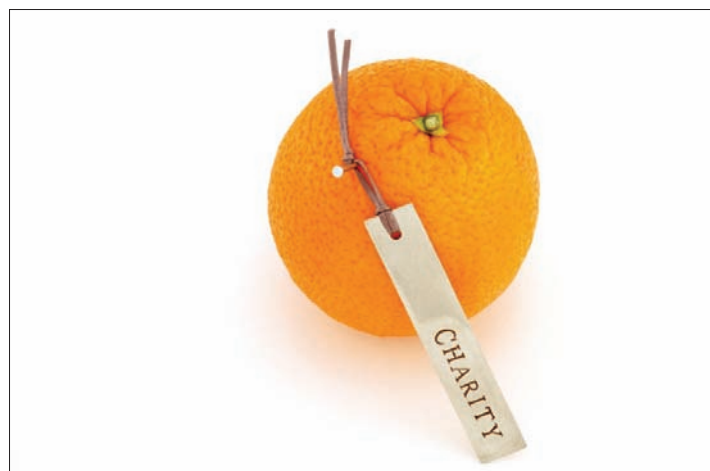
Louise Crawford, Theresa Dunne, Gwen Hannah and Lorna Stevenson - University of Dundee

Significant regulatory change has taken place in the Scottish charity sector in recent years, following on from a number of high-profile scandals in the late 1990s and early 2000s. This report examines whether these changes have been effective and whether they are considered worthwhile by those who are stakeholders in the charity sector.

This research project analyses charities' annual reports and accounts, examines their processes for governance and accountability, and conducts interviews with all those involved in the sector's accountability processes. It also undertakes a number of case studies to evaluate the awareness and perceptions of governance and accountability.

Surprisingly, Scottish charities do not seem to be aware of their legal obligation to provide a copy of their accounts in response to a request from a member of the public. For the study, several requests for annual reports and accounts were made to 545 different charities but this resulted in only 75 charities responding. The report therefore recommends that OSCR should make charities aware of the obligation to provide accounts. To improve transparency there should be a move to more governance related information, including accounts, being available on charities' websites or OSCR's own website.

Generally, charities in the study are found to be complying with the increased governance disclosure requirements of SORP 2005 and interviewees supported the establishment and role of OSCR. However, the report highlights some issues for consideration by the charity sector and its regulators. For smaller charities, in particular, there is a concern about an increase in the administrative burden and it is suggested that funders and regulators should improve their dialogue with charities and with one another with the aim of moving to a



situation where the same documentation meets both sets of information needs.

One of the big challenges for the charity sector continues to relate to the recruitment and training of suitable trustees. The researchers recommend that charities should regularly review board members' skills to ensure that they have the appropriate expertise required to advance the aims of the organisation. Some interviewees felt that it was naïve to expect charities to rely on unpaid volunteers to deliver strategic direction and argued that the time was right to debate the appropriateness of trustees' remuneration. The study also identified that, in smaller charities, risk management was often only addressed in the wake of a crisis. The researchers suggest that charities should seek to separate strategic control from management operations as a matter of best practice in effective governance.

The report makes 12 recommendations ranging from policy and funding issues to obtaining suitable trustees and advisers. It is hoped the report will aid charities, seeking to identify best practice and improve their own governance procedures, and the charity sector as a whole, when planning for the introduction of revised SORPs and other regulatory change.

The full report and executive summary are available to download free of charge at www.icas.org.uk/crawford

New books published

Corporate Governance and Corporate Performance: UK FTSE 350 Companies

Azizah Abdullah - Universiti Teknologi Mara

Michael Page - University of Portsmouth

Corporate governance has been an important topic for nearly two decades and there have been profound changes in the ways in which large companies are directed and controlled. Listed companies now have half the board composed of independent directors; audit and nominations committees are universal; and companies report on their governance and internal control. Such apparatus does not come without cost, so it is worthwhile to ask the question whether well governed companies perform better than apparently less well governed ones.

In this research, the researchers investigate how corporate governance was related to performance for large commercial and industrial companies from the peak of the stock market cycle in 1999-2000, through the trough in 2002-2003 to the beginnings of the upswing into the next cycle in 2004. This period is superficially very similar to the period bracketing the current 'credit crunch'. During this volatile time, companies experienced very turbulent external conditions yet their governance was relatively stable.

There was a consistent trend towards smaller boards. In the initial phase of governance change starting in 1992, prompted by the Cadbury Report and then the Combined Code, large listed companies (FTSE 350) increased their board sizes by appointing non-executive directors. In the phase covered by the research, board sizes reduced as companies removed executive directors from boards in order to increase the proportion of independent non-executives, as required by the updated Combined Code. By 2004, the average board size had reduced to nine members made up of four executives and five non-executives, four of whom were independent.

Performance is volatile, but governance changes only slowly. The authors found that any relationship between

governance and performance was time specific. For example, although independence and board size were associated with high market to book ratios in the first half of the period, there was no relationship in the second half of the period. Further extensive investigation did not find any consistent relationship between corporate governance characteristics and measures of overall performance.

Strangely, this is one of those cases where no news is good news. Suppose there was a clear relationship between good corporate performance and 'good' corporate governance. It would mean that companies with 'poor' governance could, apparently, increase shareholder value by moving to a better structure. The lack of such opportunities suggests that companies have moved towards good governance where it is of benefit to shareholders. Conversely, if there was a clear relationship between relatively poor performance and 'good' governance, it would suggest that the costs of good governance exceeded the benefits to shareholders.

But the picture was not so reassuring when looking at the relationship between risk and governance. There was little evidence that governance was effective in reducing the volatility of share prices or the chance of large adverse share price movements. As with the financial sector in the credit crunch, independent directors seem not to be a protection against companies adopting risky strategies.

The full report and executive summary will be available to download free of charge from mid-September 2009 at www.icas.org.uk/page



New books published

Corporate Share Repurchases: The Perceptions and Practices of UK Financial Managers and Corporate Investors

Alpa Dhanani and Roydon Roberts - Cardiff University

The recent financial crisis has witnessed a reversal in the rapid growth of share repurchase activity seen in the UK over the last 25 years, although they continue to remain a significant financial management tool for listed companies. This survey-based study, which started before the crisis, investigates the motivations for share repurchases and the perceptions of their use by both the corporate and investor community. The results of the survey are discussed below.

Non-investment companies

- Repurchase programmes appear to be motivated by a desire to return excess cash flows to shareholders; this perhaps serves to explain the reversal of activity in the current financial climate. Other factors include: a wish to influence reported earnings per share (EPS) levels; to signal undervaluation to capital markets; and to optimise firms' gearing ratios.
- Share repurchases are not used to replace regular dividend payments. Just over one quarter of firms use them to influence their share prices.
- In most companies, a multiplicity of factors, rather than a single reason, appear to be responsible for share repurchases.
- There appears to be little difference between the views of repurchasing and non-repurchasing firms, suggesting that differences in perceptions between the two groups do not explain why this method of cash disbursement is used. Instead the absence of participation by non-repurchasing firms in repurchase schemes is explained by: a lack of funds to engage in repurchase activity; and concern about adverse shareholder responses.

Investment companies

- The main factors contributing to the use of share repurchase programmes among repurchasing investment

firms is the management of Net Asset Value per Share (NAV) and discount to NAV, both of which are specific to investment companies. Managing market liquidity is also an important factor for investment companies, in contrast to non-investment companies.

- The views of repurchasing and non-repurchasing investment firms are once again very similar, indicating that decisions to engage in/refrain from share repurchases are not a result of differences in perceptions of such programmes. Rather, the absence of significant benefits from such programmes for the respective firms and/or the associated costs contribute to the lack of activity.

Investors

- When comparing investor views with those of managers, a number of reasons for using share repurchase programmes attracted more managerial support than investor support, and equally there were a few that attracted more investor support than managerial support. These differences in managerial and investor views question: whether managerial action through share repurchase programmes gives rise to the intended investor reaction; and whether investors approve the use of share repurchase programmes for the same reasons as management.

The survey results indicate that, on the whole, corporate management are satisfied with the current regulatory position and show little appetite for further regulation. While some investors agree with this view and are content with the current nature of their involvement in the process, others argue for more regulation to further protect the investor community.

The findings of this research explain the basis of repurchase activity in the recent good times, and may act as a useful guide for the new uncertain future as to the extent to which repurchases will continue to be used and, if so, in what circumstances and by which companies.

The full report and executive summary will be available to download free of charge from mid-September 2009 at www.icas.org.uk/dhanani

Coming soon...

Workforce Health as a Key Organisational Asset: An Accounting Perspective

Howard Kahn and Robin Roslender - Heriot-Watt University
Joanna Stevenson

The observation that 'employees are our most valuable asset' provides the starting point for this study. The fundamental objective of this study is to identify the extent to which senior managers in the accounting and finance and human resource management functions in UK organisations currently think of the health and wellbeing of their workforces as a valuable asset. The study also considers how to account for workforce health.

This research involved a questionnaire survey to the accounting and finance directors and human resource (HR) directors of 1,000 UK organisations, drawn from both the private and public sectors. In addition, interviews were undertaken with representatives of three organisations that might be considered to be in the vanguard of UK thinking and practice in relation to the promotion of greater levels of workforce health and wellbeing. The three organisations are South West Water, South Lanarkshire Council and AstraZeneca plc.

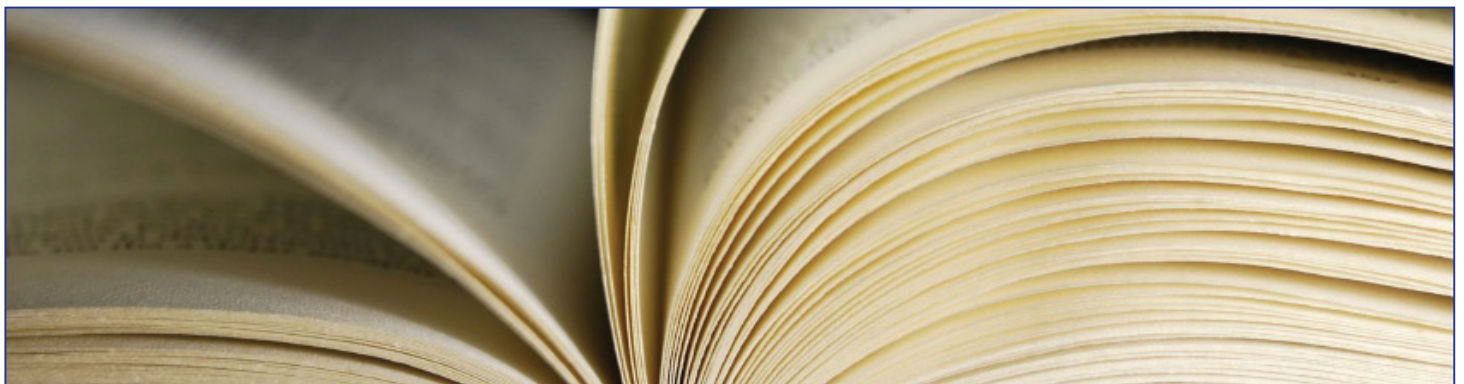
The study identified only a modest interest in, and indeed concern for, workforce health and wellbeing amongst the sample of accounting and finance directors. As may be expected, there was more interest amongst HR directors.

Towards a Culture Audit: Measuring and Assessing Tone at the Top Using Annual Report CEO Letters

Joel Amernic - University of Toronto
Russell Craig - University of Canterbury
Dennis Tourish - Robert Gordon University

In this project the authors contend that CEOs have a strong influence on the tone at the top of companies and consequently on the quality of financial reporting. The research considers FTSE 100 companies and the top 100 FORTUNE 500 companies, using a software package 'DICTION' to analyse CEO letters to shareholders and close reading of letters to measure and understand the tone at the top of companies.

The researchers argue that enhanced auditor scrutiny of the content of a CEO's letter will help to reveal the CEO's mindset and attitude to risk exposure and risk management, and that this knowledge should be instrumental to auditors in planning reviews of internal controls, in assessing the effectiveness of corporate governance protocols, and in preparing audit opinions. The researchers state that this approach would be consistent with the emphasis of ISA 315: *Understanding the Entity and its Environment and Assessing the Risk of Material Misstatements* on the importance of understanding audit risk.



Coming soon...

Intellectual Capital Disclosure Practices and Effects on the Cost of Equity Capital: UK Evidence

Musa Mangena, Richard Pike and Jing Li – Bradford University

This project investigates whether companies with improved intellectual capital disclosure benefit from a lower cost of capital.

The questions addressed by this study are:

- Is there a negative association between the cost of capital and level of intellectual capital disclosure in annual reports?
- Is there a negative association between the cost of equity capital and the level of disclosure in the three individual intellectual capital categories (human, structural and relational capital)?
- Does the level of intellectual capital disclosure interact with financial disclosure to influence the cost of equity capital?

These questions are addressed using data for 126 UK firms listed on the London Stock Exchange. The report finds that companies with greater levels of intellectual capital disclosure have cost of equity capital estimates ranging from 2.35 to 2.84 percentage points lower than for companies with low intellectual capital disclosures across all categories of intellectual capital.

The Influence of the Business Review on Reporting Key Performance Indicators in the UK Media Sector

Venancio Taurigana – Bournemouth University
Musa Mangena – Bradford University

This research investigates the reporting of Key Performance Indicators (KPIs) by the UK media sector to investigate whether KPI disclosure increased following the introduction of the business review. The study also investigates which governance and company-specific factors are associated with the extent of KPI reporting.

The results suggest that the reporting of KPIs by the UK media sector is very low, although there was an increase in the number of companies reporting KPIs after the introduction of the business review in 2006. After the introduction of the business review, the average number of KPIs increased from 1.76 to 3.81. In 2007, 25% of companies in the sample were still not reporting any KPIs. The proportion of non-executive directors, company size, profitability and gearing are associated with the extent of KPI reporting.

Given the low level of reporting, further research is necessary: to ascertain why companies have not yet responded to the Companies' Act requirements for reporting KPIs; and to determine whether users of accounts find KPIs useful for their decision-making processes.

All our new publications can be downloaded free of charge from the ICAS website: www.icas.org.uk/research. If you would prefer to order a hardcopy – priced £15 – please contact Angie at the Research Centre on 0131 347 0237 or email: research@icas.org.uk

New grants awarded

Large project grants awarded

The Limits of Translatability of IFRS – A Study of Textbook Authors and Translators

Lisa Evans – University of Stirling
Rachel Baskerville – University of Exeter

Prior literature suggests that it is virtually impossible to achieve exact equivalence in translation from one language to another. This problem is especially acute in the translation of abstract technical concepts, such as accounting or legal terminology, because meaning and interpretation depend on the language speaker's linguistic and cultural context. However, to facilitate the international harmonisation of financial reporting, it is important that there are boundaries to divergence in the interpretation of International Financial Reporting Standards (IFRS).

This project explores such issues by means of two approaches:

- an exploration of problems of translation and possible solutions with authors and translators of textbooks on IFRS in EU languages other than English; and
- a review of literature on how translation problems are addressed in other disciplines in which equivalence is crucial – in particular in law and medicine.

Annual Report Risk Disclosure Decision Usefulness: Views of Users and Preparers

Santhosh Abraham and Claire Marston – Heriot-Watt University
Phil Darby – Napier University

This project on risk reporting by UK listed companies examines whether annual report risk reporting reflects the information requirements of a key user of corporate information – investment analysts. The research also seeks to elicit responses from preparers of annual reports to understand how risk reporting policy is determined. These issues will be examined in light of the recent regulatory policy initiatives in relation to annual report risk reporting.

Small project grants awarded

Financial Key Performance Indicators in European Annual Reports: Cultural and Corporate Determinants

Francesco Dainelli, Laura Bini and Magdalena Kuntner – University of Florence

Seedcorn grants awarded

Credit Rating Agencies in China: An Expectation Gap?

Wei Sun and Angus Duff – University of the West of Scotland



Registered Scottish Charity SC034836

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

Seedcorn projects – research results

Financial and Business Reporting by Major Accounting and Financial Services Firms

Ian Fraser – University of Stirling
Chris Pong – Nottingham University

Corporate reporting by accounting and financial services firms is a recent phenomenon that has not so far been studied in depth. There are good reasons for such a study. The larger firms are powerful organisations with implications for the public interest, but which can be distinguished from most public corporations by the lack of outside shareholders and investors.

The annual reports of six firms – PwC, KPMG, BDO Stoy Hayward, Moore Stephens, Vantis and Tenon – were analysed for the reporting years ending in 2007. The selected firms represent varying size and ownership structures; four – PwC, KPMG, BDO Stoy Hayward, and Moore Stephens – are public limited partnerships while the remaining two – Vantis and Tenon – are public limited companies. The three larger firms – PwC, KPMG and BDO Stoy Hayward – unsurprisingly provide the most information in absolute terms. Of the three smaller firms, Tenon and Vantis produce much more extensive reports than does Moore Stephens. One likely reason is the additional accounting and disclosure requirements that result from Tenon and Vantis being Plcs.

Seven major disclosure themes (in addition to financial reporting) – services, people, clients, performance, corporate social responsibility, governance and business development – featuring in the corporate reports, were identified. A basic content analysis was carried out on each report with the objective of ascertaining the emphasis which individual firms placed on particular themes.

The results present some interesting features as far as particular themes are concerned. Both PwC and KPMG focus on people and governance. When, further, we classify the disclosures made on services, people and clients under the general heading of marketing, both firms are seen to disclose a substantial amount of this category of information (PwC: 48%; KPMG: 31%). Of the smaller firms, BDO Stoy

Hayward and Moore Stephens also put a strong emphasis on marketing (BDO: 62%; Moore Stephens: 58%). This indicates the competitive market in which the firms operate and the marketing emphasis of some non Big Four firms suggests a drive to compete with the Big Four. These marketing initiatives suggest a desire to connect with corporate management rather than shareholders of clients.

The extent to which firms engage with the contemporary CSR agenda appears to vary greatly and to reflect their relative size. Thus PwC and KPMG place the greatest emphasis on CSR whereas, at the other end of the spectrum, Vantis and Tenon disclose no CSR information. The two Plcs – Tenon and Vantis – emphasise company performance and business development to a much greater extent than the other firms; this may reflect the more demanding environment in which Plcs operate.

Disclosure emphasis (percentage of report) by firm

Firm	Marketing				PERF	CSR	GOV	BD
	Services	People	Clients	Total				
PwC	11%	28.9%	9%	48%	7%	20%	25%	-
KPMG	6%	19%	6%	31%	12%	14%	35%	8%
BDO Stoy Hayward	16%	19%	27%	62%	12%	10%	6%	10%
Moore Stephens	49%	5%	4%	58%	11%	4%	21%	6%
Tenon	25%	7%	8%	40%	37%	-	7%	16%
Vantis	20%	-	-	20%	33%	-	20%	27%

Note: PERF = Performance CSR = Corporate Social Responsibility
GOV = Governance BD = Business Development

In summary, the most interesting aspect of accounting firm disclosure highlighted is the very substantial amount of material which is either marketing or, especially for the very largest firms, CSR related. This raises questions as to the purpose of this disclosure. Leaving aside accounting and other mandatory disclosures, the study suggests that the primary purpose of accounting firms' reports is to market the firms to corporate client management, rather than to investors and shareholders, as well as to 'legitimate' the firms to society more generally. These issues merit more extensive research.

Seedcorn projects – research results

Corporate Governance Developments in the Latin American Andean Region

Maria Mina, Christine Helliar and Elizabeth Monk -
University of Dundee

The study refers to the developments in the implementation of corporate governance principles by organisations in the five countries of the Andean Region: Bolivia; Colombia; Ecuador; Peru; and Venezuela. First, the study analyses the ways that companies are implementing corporate governance standards and, in particular, the Corporate Governance Guidelines of the Andean Corporate Governance Code developed by the Andean Development Corporation (Corporación Andina de Fomento – CAF). Second, the study examines why companies in the region decide to implement corporate governance principles, it is because they want to be accountable to their stakeholders or because they want to show their legitimacy.

Interviews were conducted with 11 individuals related to CAF: four CAF employees; four employees of entities that act as CAF's counterparts in the region; and three directors of companies who participated in CAF's pilot study of fifteen companies. Document analysis was also used to investigate how companies report the implementation of corporate governance principles and how the adoption of principles affects the way these companies are managed and controlled.

There is a great deal of importance placed on events such as conferences, workshops, forums and training breakfasts as a means to promote and train companies in the practices of corporate governance. Generally these events provide an updated analysis of the current situation, emphasising the lessons learned in the process of reforms and the implementation of effective corporate governance practices, both in family businesses, state-owned enterprises, and listed companies.

At one of the events attended by the researchers, the co-operation of the organisers allowed the distribution of a questionnaire to the event's participants and 80 replies were collected from business people, managers, directors, auditors, academics and students.

The implementation of corporate governance principles is very important to the Andean region development. CAF's effort in promoting the implementation of corporate governance principles has helped increase knowledge in the topic. There are many people who are genuinely interested in governance issues, including: investors; securities issuers; companies that want to be listed; and family businesses, demonstrating that corporate governance is not only for listed companies. Many now feel that corporate governance affects everyone. This is also the view of very influential organisations in the region, such as, the CIPE (Centre for International Private Enterprise) which has been actively financing corporate governance projects.

CAF has been working hard to change the attitude of companies and individuals who are unconvinced of the need to implement corporate governance principles in businesses. Nevertheless, many issues still remain to be addressed. As one of the interviewees pointed out, this is a long process in which there is a need for the "awakening of companies' consciousness". For this reason the process has been handled with the idea that there are different corporate governance arrangements for each type of company. There are also specific characteristics to each organisation which means that corporate governance requirements should be flexible with the opportunity to develop when needed. It is difficult to say that an organisation has fully adopted corporate governance standards; there is always something new or something changing and therefore the rules must adapt to all these features.



Small projects – research results

An Exploratory Study of a R&D-Intensive Firm

Pauline Gleadle – The Open University
Colin Haslam – University of Hertfordshire

Some of the key literature on financialisation suggests that managers have a tendency to exaggerate performance and that they are predisposed to align managerial interests with those of shareholders. In this exploratory study of a relatively successful R&D-intensive biotech firm ‘Medco’ the objective has been to consider the extent to which managerial narratives and corporate governance priorities are modified by the demands of the capital market.

The researchers interviewed Medco’s commercial director, a senior finance professional and three individuals from different levels within the laboratory R&D function. The investigation also included a detailed financial analysis using Medco’s published accounts from 2003 to 2007. The financial performance profile of Medco was then compared against 500 Alternative Investment Market (AIM) companies.

Medco was the product of research undertaken at a South Eastern university where the object was to fund R&D in order to develop ideas and publish in academic journals. This R&D driven culture of experimentation and knowledge development was still present in Medco in 2008 but progressively diluted by a managerial culture, with its emphasis on commercialisation and cost effectiveness, cash earnings and pay for performance.

R&D does still matter in Medco but R&D must pay for itself and generate returns to shareholders. The R&D function (expense) is wired into budgets with associated physical, temporal and financial objective(s). These budgets connect outcomes to incentives linking employee pay to (shareholder value) performance and investor bulletins kept in the canteen. R&D is about communicating “good news” to the analysts to influence their opinions, confidence and ultimately the share price.

The researchers argue that R&D, on its own, may not be sufficient to deliver strong corporate financial performance and that the link between R&D and financial performance is

not straightforward. The interviewees revealed some of the contradictions, for example: that Medco often struggled to get a new product into the market quickly enough and how that delay would eat into the effective patent period. Moreover, even before patent expiry, intense product market competition and the commodification of Medco product could damage cash and profit margins.

The analysis of the numbers from Medco’s published report and accounts revealed that financial performance is not exceptional when benchmarked against the average AIM listed firm. Medco is caught between powerful customers and competitors that erode the financial benefits that might accrue from being R&D intensive. The researchers argue that financialisation is directing strategy in Medco and one element of this is how R&D and narratives about innovation are employed to boost market valuation in the absence of above average performance.

Other elements include a managerial remuneration package that wires managerial pay into shareholder value metrics. Medco is pursuing a policy of growth by acquisition but this exposes Medco to shareholder demands for value creation and value absorption and vagaries of capital market demands, for example, the additional pressure to pay dividends and make good holding losses on pension fund assets.

Although it is difficult to generalize from one case study this project does open up a series of questions that require further investigation, including:

- To what extent are R&D-intensive SME firms able to translate innovation and new product development into above average financial performance and establish robust business models?
- Have the patterns of cash distribution shifted over time in R&D-intensive SME’s towards shareholders at the expense of capital investment and productive renewal?
- To what extent is there a culture of high pay and share of profits distributed to directors in R&D-intensive SME’s?
- What are the implications for sustainability of R&D intensive biotech?

¹ To preserve anonymity, the actual name of the company has been changed.

Research news...

ICAS is pleased to announce the appointment of Professor Angus Duff from the University of the West of Scotland as its Research Adviser from 1 August 2009. Angus takes over from Professor Christine Helliar, in providing advice and academic leadership to the ICAS Research Committee and ensuring the quality of ICAS sponsored and SATER funded academic research projects and resulting publications.

Angus Duff is a Professor of Accounting and Finance at the University of the West of Scotland. He is a member of the Chartered Institute of Management Accountants and the Association of Corporate Treasurers. He has published numerous articles in academic and professional journals. His current areas of interest are: accounting education; the accounting profession; and financial services.

ICAS Appoints New Research Adviser



ICAS is pleased to announce that Angus Duff has recently joined the ICAS Research team.

New Style Research Reports

The ICAS Research Centre and Research Committee are continually looking at ways to enhance the impact of our funded research. We are keen to ensure that research findings are as widely distributed as possible both within academia, the profession, the business community and policy makers. We currently do this through making ICAS research reports and executive summaries freely available to download from our website, targeted email or postal distribution of the report to our key contacts and policy makers and discussion events, often in conjunction with other associations, to encourage debate. We also encourage researchers to publish their results in academic journals and professional magazines.

As part of this initiative we have decided to move away from our traditional research monographs which currently vary between 100 and 200 pages to a much shorter document of around 30 pages. We believe that this will enable us to disseminate research results to a much larger audience and encourage readability. This change in style of reports will be a gradual process as reports under our previous guidance will continue to be published in the meantime. Guidance notes for authors of ICAS reports are available by contacting the research centre or visiting www.icas.org.uk/research.

For each research project we will consider a range of outputs in addition to the main research report to ensure the maximum impact for each project. We hope that this will also help demonstrate policy impact under the new Research Excellence Framework (REF).

If you have any queries on our new style research reports please contact the Research Centre – research@icas.org.uk.

Research news...

ICAS/BAA Accounting & Finance Scotdoc Colloquium 2009

On Monday 15th June 2009, the Accounting and Finance Division of the University of Stirling hosted the 13th Annual ICAS/BAA Accounting and Finance Scotdoc Colloquium. The aim of the colloquium is to assist in developing the next generation of accounting and finance academics by pooling experiences and expertise. It also encourages collegiality across doctoral programmes in Scotland.

The event provided an opportunity for all research students and their supervisors in Scottish universities to meet and to participate in presenting and discussing research plans and progress. In total, the day was attended by 63 accounting and finance doctoral students from 12 Scottish universities. Thirty five student presentations covered all stages of PhD research, from initial proposals to final discussion of contribution in preparation for a viva. Twenty five academic staff members were present and gave feedback on the students' work.

Professor Pauline Weetman, University of Edinburgh, gave a well-received presentation about publishing research work in academic journals, directed at the doctoral students starting their academic career. This presentation provided a lot of useful advice from the editorial point of view and encouraged students to think about the impact of their research and their priorities during their PhD study.

Accounting Education: An International Journal – Call for Papers

Accounting Education: An international journal invites submissions for a themed issue on the topic of audit education. The deadline for submissions is **15 December 2009**, with publication currently scheduled for late 2010.

For further details please see the IAAER website:

www.iaaer.org/publications/files/CFP_AE_Audit_Education.pdf

Register of Statutory Auditors

The *Register of Statutory Auditors*, covering all auditors registered in the UK by ICAS, ICAEW, ICAI, ACCA and AAPA, is now publicly available at www.auditregister.org.uk. The website lists registered audit firms, registered individuals and details of the five supervisory bodies and has a number of search facilities and should be a useful source to researchers. The site is administered by ICAS on behalf of the five professional accounting bodies.

Applications for research funding

ICAS is committed to supporting and encouraging high quality research that 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 Michelle or Angus 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

Research news...

New Research Excellence Framework

As you will be aware, HEFCE is working to develop new arrangements for the assessment and funding of research. The new arrangements – the Research Excellence Framework (REF) – will replace the Research Assessment Exercise (RAE) in 2014. A consultation paper will be published in autumn 2009 with the deadline for comments expected to be December 2009.

Assessment will combine quantitative indicators – including bibliometric indicators wherever these are appropriate – and expert review. Which of these elements are employed, and the balance between them, will vary as appropriate to each subject. The economic and social impact of research, as well as impact upon public policy, will also contribute to the overall assessment of quality.

ICAS, through SATER, funds research which is policy relevant and, through links with policy makers and discussion events, demonstrates the relevance and impact of its research. We are keen to ensure that such professional body research is recognised in the REF. We expect to respond to the consultation document and will work in association with the other accounting professional bodies. If you have any feedback on the consultation document you would like us to consider in our response please contact research@icas.org.uk

To keep up to date with developments you can join the REF news mailing list at: www.hefce.ac.uk/research/ref/contact/

For further details on the REF please visit the HEFCE website: www.hefce.ac.uk/research/ref/

Tax Research Network

Derek Allen, Director of Taxation at ICAS will attend the Tax Research Network Annual Conference *A New Agenda for Tax?* on 10th and 11th September 2009 in Cardiff. Derek will be a participant on a ‘funders panel’ session during the conference. If you are interested in undertaking tax research, supported by ICAS, please discuss your ideas with Derek at the conference or alternatively contact the Research Centre at research@icas.org.uk. We would be pleased to provide informal feedback on any ideas you have for tax research and look forward to hearing from you.

For further details of the conference visit: www2.warwick.ac.uk/fac/soc/wbs/research/trn/events/currentconference/

The end of an era...

After six years, Christine Helliar stepped down from the position as Director of Research at ICAS. We would like to thank Christine for her commitment and hard work and we wish her every success in her future endeavours. Christine recently took over the role of Dean at the School of Accounting and Finance, University of Dundee, and also the Chair of the British Accounting Association, so we are sure she will be kept busy!



ICAS technical news

New Ethics Case Studies

Following the publication of his ICAS research report *What do you do now? Ethical issues encountered by Chartered Accountants*, David Molyneaux joined the ICAS Ethics Committee and decided to undertake a follow-up publication which would focus more specifically on the ethical dilemmas faced by chartered accountants in business. Sadly, David fell ill before he could commence this project and, following a brave battle against his illness, passed away in April this year. In recognition of the work done by David, the Ethics Committee decided to undertake this project to produce a further series of case studies to try and illustrate the practical application of the principles contained in the ICAS Code.

Recent events have vindicated that it is essential that professional accountants and others in business are able to display ethical courage as and when required. The case studies are specifically designed to raise discussion amongst members and to hopefully further embed ethical values and thinking into the day-to-day workings of chartered accountants. They are also valid for senior people in business or in the public eye. Values in themselves are nothing unless in practice they are adhered to. This might sometimes result in a chartered accountant having to follow a course of action that might be difficult but the easy option is rarely the most appropriate.

The 'scenario analysis' in each case is not intended to give definitive solutions to the dilemmas posed, but merely to illustrate the main points that should be considered. The possibility also exists that the reader may well have other points which are not covered in the analysis. The aim is to try and bring 'ethics to life' and illustrate that members are exposed to such dilemmas far more than most members probably thought.

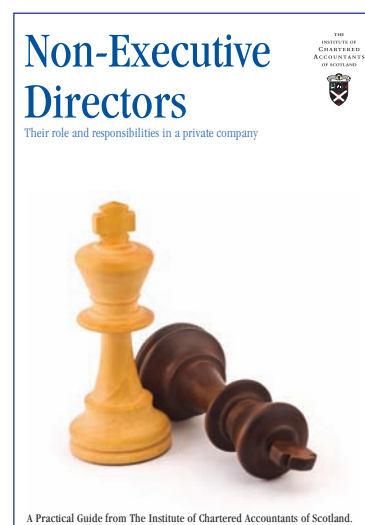
These additional case studies will be published shortly on the ICAS website and will be available to download free of charge at www.icas.org.uk/ethics.

ICAS Guidance: 'Non-executive Directors: Their Role and Responsibilities in a Private Company'

The guide is designed to be practical and to assist boards in deciding whether they wish to appoint a non-executive director and what should be expected from that appointment. It should also assist non-executive directors in fulfilling their role on a company board and it can be used by someone who is asked to become a non-executive director, to help him or her in evaluating whether or not to accept the position. It also outlines a number of practical measures, which should help both the company and the directors to fulfil their roles and to manage their risks effectively.

The guide is not intended to be prescriptive but simply to suggest points that a non-executive director and a company board may wish to consider in order to manage expectations, and to manage potential risks.

The guidance is available from ICAS or can be downloaded from the ICAS website at www.icas.org.uk/non-exec



ICAS technical news

New research undertaken by the ICAS Audit & Assurance Committee

Investors ask for Better Communication on the Audit Process

The global financial crisis in 2008 has re-opened the debate about the role of audit, as solutions are sought to help avoid a future financial collapse, and have highlighted concerns about what the statutory audit delivers.

The obvious output and evidence of the auditor's work is the audit report. Let's face it, it is not a new criticism that audit reports over the years have become opaque and uninformative. The UK Auditing Practices Board (APB) and the international standard-setter the International Auditing and Assurance Standards Board (IAASB), are both undertaking research to identify what changes investors would like to see to the format and wording of the audit report. ICAS also has a keen interest in the future development of the audit and the Institute's Audit and Assurance Committee has carried out a survey which sought the views of investment professionals on the usefulness of the current statutory audit, and whether any changes to the audit are desirable.

The survey found that the vast majority of investors believe that the existence of an audit is vital – they rely on the fact that there has been some sort of independent check on the financial statements. Most well-informed users of financial statements realise that financial reporting is not an exact science – there is always an element of judgement and uncertainty which makes the existence of a 'second opinion' crucial in enhancing user confidence in the financial statements.

The survey asked respondents what they thought would be the impact on the capital markets if the statutory requirement to have an audit was removed. A very large majority thought that the impact would be negative – removing a vital level of trust from the system which would impact on willingness to invest. Investors also place high importance on the independence of the auditor – respondents named this as one of the most important factors influencing their views of the usefulness and quality of the audit.

While acknowledging the fundamental value of the basic audit product, a number of respondents were concerned about the increasing level of regulations surrounding financial reporting and auditing. A number of respondents said that the key element of the audit that they value is that the auditor provides a robust and well-informed challenge to a company's management in key risk areas. Concerns were expressed that the detailed nature of the modern day audit hampers the auditor's ability to perform this vital function.

The findings confirmed other research which has also suggested that investors find the way auditors communicate the results of their work is not wholly satisfactory. For example, only 20% of respondents said that they would always read the audit report when looking at the annual report, and well over half only read it if the opinion is qualified. This reflects comments made by many that the wording of the audit report has become too 'boiler-plate' and lacking in information specific to the company being audited. Almost all respondents commented that the audit would be improved by the provision of more information on the key judgements made.

The survey also asked whether alternative forms of assurance would be considered to be more effective than the statutory audit – for example, an audit that focuses on specific pieces of information/specific financial statements (selected by investors), or the auditors providing a perpetually updated statement on the adequacy and effectiveness of the company's internal control systems. There was little appetite amongst respondents for this. The majority of respondents thought that the alternatives would be either less effective, or similar to, the statutory audit.

So what can be concluded from these findings? The statutory audit certainly plays an important role in providing this confidence, but the survey shows that the audit profession has a duty to communicate more effectively the value of their work, both through engaging with key stakeholders and by developing new proposals for the audit report. The ICAS audit and assurance committee will continue to investigate ways to achieve these objectives over the coming months.

For a fuller analysis, please refer to the September edition of CA Magazine – also available online at camagonline.com

In memoriam – David Molyneaux

David Molyneaux: An Appreciation

by John Sturrock QC

David Molyneaux qualified with the Institute of Chartered Accountants in England and Wales in 1979, winning the Quilter Prize for first place in Auditing. He worked for Coopers & Lybrand in London, Tanzania and Edinburgh, becoming a partner in 1986.

After leaving the partnership in 1992, he studied Divinity at the University of Edinburgh, gained a PhD and worked at the University of Aberdeen, where his research focused on professional ethics. He remained closely involved with ICAS, serving several times as an examiner for the Test of Professional Expertise.

In 2008, ICAS published his monograph, entitled *What do you do now? Ethical issues Encountered by Chartered Accountants*. He died of a brain tumour on 22 April 2009. The following tribute is written by John Sturrock QC, a long-standing friend...

I had the privilege to know David Molyneaux for more than 20 years. I believe I can say that he was one of the most remarkable men with whom I have ever enjoyed a friendship. He had in abundance all the characteristics of a remarkable man: honesty, graciousness, discretion, courage, faithfulness, compassion, patience, tolerance, fairness, dignity, authenticity, gentleness and integrity.

David was fun to be with, never taking himself too seriously, willing to prick the pomposity of the overly stern, but without a hint of malice. He was a dear friend, guide and mentor to many. David genuinely lived out the biblical teaching that blessings are bestowed on the meek. That was not a reason to be diffident or to hide away, for David was not afraid to put himself forward where and when that mattered.

This was not driven by ego but by a commitment to serve. He was tolerant of others and of other points of view, always respectful and courteous. He would say: “Just because I am right, does not mean that you are wrong. You may be right also.”

As he strove to serve, David’s career took many unconventional twists and turns, from his first degree in Classics at Bristol, where he and his future wife Pamela met, to training in chartered accountancy with Coopers & Lybrand in London, then on to Tanzania for two years, returning to Edinburgh and rising to become a partner in the firm. Then there was the training for ministry in the Church – and finally moving on to teaching, research and writing, mainly on business and professional ethics, in Aberdeen and elsewhere. He gained many honours and prizes along the way.

He mixed the practical and the theoretical, the world of business and the world of academe. This great strength was not always appreciated by others with a more limited frame of reference, a source of rare irritation to David. For a man of principle and intellect, he was grounded in reality.

It was as far back as the mid-1990s when I recall David predicting that ethics would become one of the big issues in financial circles in the years ahead. Prophetic words.

His gift last year to the accountancy profession of a major monograph on ethical issues encountered by accountants in real life marks a highlight for which David will long be remembered – and thanked – in the years ahead. It is one of his legacies.

David worked tirelessly for many not-for-profit organisations (especially as chair for many years of Ark Housing Association), and was committed in his support of the Church of Scotland’s work.

No tribute to David would be complete without mention of his faith. When, at the end of September last year, he was told

In memoriam – David Molyneaux

of his diagnosis, his gracious acceptance of this bolt from the blue, his refusal to ask “why me?” and his express recognition that he had enjoyed a really good life, spoke volumes and were humbling. He and Pamela placed their trust in God. What courage. What an example to us all.

In his email to me on 1 October – between his diagnosis and surgery – David wrote: “Yes, the last few days have reminded me of our limited role as individuals. It is a sense that we are part of something much bigger than ourselves and helps to put ourselves in perspective. In this, the integrity of the searching and the necessity of trusting and hoping seem the key. Love – charity in the old sense of the word – is indeed what we must trust to find.”

For David, faith was about joyful hope. He would want us all to say our farewells to him with that joyful hope in our hearts and minds.

We pass this way but once – and we may only have one opportunity to touch a life or lives. David Molyneaux touched many.

His example of gracious generosity, trusting love and humble faith serves as continuing guidance and encouragement to us all.



Dates for your diary

9th December 2009

Emerging Scholars in Banking and Finance

Cass Business School London

Deadline for submission of papers is 15th September 2009

w: cass.city.ac.uk/conferences/emergingscholars/index.html **or** bankingcentre@city.ac.uk

e: John Wilson – jsw7@st-andrews.ac.uk

30th March – 1st April 2010

BAA Annual Conference

University of Cardiff

w: baa.group.shef.ac.uk

e: baa@shef.ac.uk

16th – 17th April 2010

BAA Auditing SIG Conference

Aston Business School, Birmingham

w: abs.aston.ac.uk/newweb/AcademicGroups/fal/ASIG/FirtsPage.html

e: Ilias Basioudis – i.g.basioudis@aston.ac.uk

19th – 21st May 2010

EAA Annual Congress

Istanbul Hilton Convention & Exhibition Center

w: eaa-online.org

e: Nicole Coopman, EAA Executive Secretary – coopman@eiasm.be

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