

Are Auditors of Public Companies Prepared for the Transition to IFRS?

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As of this writing, non-U.S. companies using International Financial Reporting Standards (IFRS) are permitted to list their securities on U.S. stock exchanges without reconciling those statements to U.S. GAAP. In February 2010, the SEC stated that U.S. issuers would not be required to employ IFRS until 2015 at the earliest. (The previous target date had been 2014.) The SEC further stated that it would vote in 2011 whether to go forward with a mandate to employ IFRS solely or to allow firms to use either IFRS or U.S. GAAP. Although earlier adoption of IFRS had originally been encouraged, the SEC reversed its position at its February 2010 meeting. Despite the SEC's deferral of the implementation date, the 2011 Uniform CPA Examination will require knowledge of IFRS, and one of the capabilities expected from candidates is as follows:

Identify and understand the differences between financial statements prepared on the basis of accounting principles generally accepted in the United States of America (U.S. GAAP) and International Financial Reporting Standards (IFRS).

In an April 2010 article ("The SEC's IFRS Work Plan") in the *Journal of Accountancy*, Alexandra DeFelice and Matthew G. Lamoreaux summarized a list of issues that the SEC would consider before implementing IFRS for U.S. companies, including—

- whether IFRS is sufficiently developed to serve as a global standard;
- whether the development of IFRS is sufficiently independent;
- whether U.S. investors' understanding of IFRS and its differences from U.S. GAAP is sufficient;
- whether U.S. laws, other than securities and regulatory reporting, would be affected by a change to IFRS;



- whether the effect on various facets of both large and small U.S. companies, such as accounting systems, contractual agreements, and liability contingencies, are appropriately dealt with; and
- whether the preparers and auditors of financial statements are sufficiently prepared, through education and experience, for a conversion to IFRS.

The AICPA has urged the SEC to establish a timetable for the adoption of IFRS

by U.S. companies, as have the International Federation of Accountants and the AICPA-affiliated Center for Audit Quality. In addition, in a survey of U.S. executives conducted by the accounting firm KPMG LLP, about half (49%) stated that they would like to have the ability to adopt IFRS before an official SEC deadline is determined, even though a definite mandate to require adoption has not been formally issued ("Half of U.S.

Execs Want to Use IFRS Early,” by Emily Chasan, Reuters, March 9, 2010).

Much has been written about the differences between the two sets of accounting standards and about the prospects for either the convergence of the standards or the U.S. adoption of IFRS. An overriding issue is the cost of conversion. A survey of U.S. executives of publicly traded companies indicated that they estimated the cost of converting to IFRS could be more than their European counterparts incurred. Depending on their company’s size, they indicated that they expected the costs to be between 0.1% and 0.7% of annual revenue, while European companies incurred an average cost of 0.5% of revenue when they converted. In December 2008, 208 executives from companies with revenues of over \$1 billion were surveyed (more than three-fourths of the respondents were from entities with revenues of over \$5 billion), and they estimated that the cost of the shift to IFRS would be “substantially more” than the 0.125% to 0.13% that the SEC had estimated would be the average conversion cost for U.S. companies. The SEC also estimated that the largest U.S. registrants would incur about \$32 million in additional costs for their initial IFRS annual reports (“Guessing the Costs of IFRS Conversion,” by Sarah Johnson, CFO.com, March 30, 2009).

Much of the costs would presumably involve educating U.S. accountants in acquiring enough knowledge of IFRS to prepare their company’s financial statements in conformity with that accounting model. Additionally, while the above discussion refers to the costs of publicly traded companies converting to IFRS, there is a commensurate cost to educating auditors to be able to attest to financial statements prepared under IFRS.

Given this background, the primary objective of the authors’ research focuses on the last issue of the six listed above—namely, the education and experience of accountants in the area of IFRS. Specifically, the authors examined how those in the auditing profession are currently learning IFRS, what future plans they have to acquire additional IFRS knowledge, and what their comfort level with performing audits under IFRS was. The results should be of interest to professionals required to learn IFRS, organi-

EXHIBIT 1
Demographic Data on Respondents

| A. Average Years of Experience in: | | |
|--|-----------------------|-----------|
| Public Accounting | 20 (446 respondents) | |
| Industry Accounting | 7.7 (115 respondents) | |
| Other Professional Accounting | 5.4 (28 respondents) | |
| B. Position Within Firm | | |
| Partner | 297 (66%) | |
| Manager | 151 (34%) | |
| Total Respondents | 448 (100%) | |
| C. Participate in Audit of Companies Listed with the SEC | | |
| | Yes | No |
| By Position Within Firm: | | |
| Partner | 173 (59%) | 122 (41%) |
| Manager | 61 (40%) | 90 (60%) |
| Total Respondents | 234 (52%) | 212 (48%) |
| By Firm Size: | | |
| Big Four | 159 (73%) | 59 (27%) |
| Fifth- to 10th-largest | 57 (47%) | 64 (53%) |
| 11th- to 30th-largest | 10 (19%) | 43 (81%) |
| Smaller than 30th-largest | 7 (14%) | 42 (86%) |
| Total Respondents | 233 (53%) | 208 (47%) |
| D. Participate in Audit of non-U.S. Companies Listed with the SEC | | |
| | Yes | No |
| By Position Within Firm: | | |
| Partner | 69 (24%) | 223 (76%) |
| Manager | 19 (13%) | 132 (87%) |
| Total Respondents | 88 (20%) | 355 (80%) |
| By Firm Size: | | |
| Big Four | 69 (32%) | 147 (68%) |
| Fifth- to 10th-largest | 13 (11%) | 108 (89%) |
| 11th- to 30th-largest | 3 (7%) | 49 (93%) |
| Smaller than 30th-largest | 2 (4%) | 47 (96%) |
| Total Respondents | 87 (20%) | 351 (80%) |
| E. Size of Firm with which Respondents Are Associated | | |
| Big Four | 219 (49%) | |
| Fifth- to 10th-largest | 121 (27%) | |
| 11th- to 30th-largest | 53 (12%) | |
| Smaller than 30th-largest | 49 (11%) | |
| Total Respondents | 442 (99%) | |

zations offering IFRS resources, universities and other organizations that will offer IFRS education, and other interested parties, such as the SEC, that would be concerned about how well U.S. auditors are preparing for the conversion.

Relevant Literature

A review of the literature found no empirical study that was similar to the authors' research. This might be due to the fact that the proposed shift to IFRS is fairly recent, and most of the academic research is related to the differences in accounting metrics for certain businesses and industries under U.S. GAAP and IFRS. It is evident that universities have been caught off guard by the speed called for by the road map to IFRS conversion, and therefore, students graduating in the next year or two will not have a knowledge of IFRS that is nearly equivalent

to the knowledge they've acquired of U.S. GAAP. In fact, in a study conducted by the American Accounting Association in July and August 2009, only 8% of professors surveyed stated that they believed at least half of their faculty were qualified to teach IFRS ("Accounting Educators Say U.S. at Disadvantage Without IFRS," *Journal of Accountancy*, September 2009). Furthermore, 62% stated that they have not taken any significant steps toward building IFRS into their curriculum. One barrier is that they did not think that textbooks would be ready until the 2010/2011 academic year. Another is that they believed that administrators responsible for allocating resources do not understand the magnitude of the change (*Accounting Web*, 2009).

A review of sources for acquiring a technical knowledge of IFRS found a plethora of resources. For example, the Big Four have

hosted a series of webcasts focusing on IFRS, and they often provide in-house training. CPA societies are also conducting IFRS-related seminars. In an interview with AICPA CEO Barry Melancon, he stated that "as soon as we saw IFRS on the radar," the organization started providing news and information, education, training, and other resources to help the members "understand what IFRS is about, how it is different from U.S. GAAP, and the systems changes it would bring" ("An Interview with AICPA President and CEO Barry Melancon, CPA," by S. McMahon, SmartBrief, Inc., 2009).

There are online resources on IFRS available from the AICPA, the International Accounting Standards Board (IASB), FASB, and the SEC, among others. There are also numerous proprietary resources being offered by publishers. Wiley, for example, has several IFRS-related books available for purchase. The authors' conclusion based on this review is that there are adequate sources for acquiring an IFRS knowledge base. As such, the question becomes to what extent are these resources being used by auditors. The expectation was that individuals in organizations of various sizes (i.e., Big Four versus others) would undertake different strategies in becoming sufficiently educated about IFRS.

Research Method

A survey was sent to a random sample of 2,000 AICPA members employed by public accounting firms that have substantial publicly traded companies as clients. This sample population represented the 30 largest U.S. accounting firms by revenue, a threshold chosen—after speaking to a former member of the Auditing Standards Board—in order to concentrate on firms with publicly traded clients. This group of firms was expected to have more urgency to learn IFRS than auditors from smaller public accounting firms, which will likely face a later conversion date. The sample criteria specified to the AICPA were individuals from firms with this revenue size who were also members of the "audit interest" section of the AICPA and, concomitantly, represented auditors (as opposed to individuals engaged in tax or other accounting areas). An initial request was sent out in February 2010, followed by a second request in April 2010.

It should be noted that there were nine surveys that did not list the individuals'

EXHIBIT 2 Self-Assessed Current Knowledge of IFRS

A. Have a Working Knowledge of IFRS Sufficient to Participate Efficiently in the Audit of a Company Employing Those Standards

| | Agree | Neither Agree nor Disagree | Disagree |
|---------------------------------|-------|----------------------------|----------|
| By Position Within Firm: | | | |
| Partner | 42% | 11% | 47% |
| Manager | 21% | 11% | 68% |
| By Firm Size: | | | |
| Big Four | 47% | 13% | 40% |
| Fifth- to 10th-largest | 27% | 10% | 63% |
| 11th- to 30th-largest | 28% | 6% | 66% |
| Smaller than 30th-largest | 11% | 8% | 81% |

B. Feel More Comfortable Auditing Companies Employing IFRS than Auditing Companies Employing U.S. GAAP

| | Agree | Neither Agree nor Disagree | Disagree |
|---------------------------------|-------|----------------------------|----------|
| By Position Within Firm: | | | |
| Partner | 4% | 10% | 86% |
| Manager | 1% | 14% | 86% |
| By Firm Size: | | | |
| Big Four | 4% | 14% | 82% |
| Fifth- to 10th-largest | 2% | 7% | 91% |
| 11th- to 30th-largest | 0% | 17% | 83% |
| Smaller than 30th-largest | 2% | 6% | 92% |

position and were excluded from analysis, as well as a total of 30 responses from staff (seven) and senior managers (23) that were deemed as too few to include in the analysis. Five surveys were returned due to an undeliverable address. Therefore, the response percentage is based on a total of 1,956 surveys that were either delivered and not returned, or returned with unusable inputs. Given the demands on the time of these individuals, we considered the response rate satisfactory for analysis.

Results. The research results are grouped in seven categories: demographics, current IFRS knowledge, firm IFRS knowledge requirements, sources of IFRS knowledge acquisition, future IFRS knowledge acquisition plans, expected time involved in future IFRS knowledge acquisition, and expected costs involved in future IFRS knowledge acquisition.

Demographics

Exhibit 1 summarizes the demographics of the sample. The first item involved the respondents' experience. Almost all the respondents had experience in public accounting, with an average of approximately 20 years. Those who had experience in industry or other accounting areas averaged eight and five years of experience in those areas, respectively. As to whether they are involved in the audits of SEC registrants, the results were almost split evenly (52% yes, 48% no). Of the various levels, 59% of the partners answered in the affirmative, indicating that they were very involved. The participation in SEC-listed clients was much lower for managers, with only 40% involved with SEC clients. When categorized by firm size, the results indicated that SEC clients are most prominent at the Big Four (73%), and this drops off to a low of 14% for the smallest firms.

The next question concerned participation in audits of non-U.S. SEC registrants. Only 20% of respondents stated that they were engaged in these audits. The highest level of participation was at the partner level (24%), with managers at only 13%. Again, the broadest participation rate was found in the Big Four (32%). The final item focused on respondents' firm size, with the vast majority coming from the large national firms (Big Four, 49%; fifth- to 10th-largest firms, 27%). The

remainder came from the 11th-largest through the 30th-largest (12%) and below the 30th-largest (11%). Since this last group was not included in the sample request, it appears that these individuals had left their previous, larger firm and had not yet been reclassified by the AICPA.

Current IFRS Knowledge Acquisition

Exhibit 2 summarizes the participants' perception of their current competence level with regard to IFRS. The first item asked whether they had a working knowledge of IFRS sufficient to effectively participate in the audit of a company employing these standards. Only 42% of partners and 21% of managers agreed that they possessed sufficient IFRS knowledge to perform such an audit. Of those

respondents from the Big Four, however, 47% said they possessed such knowledge. The next statement asked if they were more comfortable in the audits of companies employing IFRS versus U.S. GAAP, and the results indicated that they were much more at ease with U.S. GAAP. Indeed, only 4% of partners and 1% of managers responded in the "agree" area that they were more comfortable with IFRS.

Firm IFRS Knowledge Requirements

Exhibit 3 refers to the requirements for IFRS education imposed by the respondents' employers. The first question focused on whether there was mandatory IFRS education for most audit personnel, with only 36% responding in the affirmative; however, this was much larger at the Big Four

| EXHIBIT 3 Firm IFRS Knowledge Requirements | | | |
|---|------------|-------------|--------------------|
| A. Firm Requires IFRS Training for Most Audit Personnel | | | |
| By Firm Size: | | | |
| | Yes | No | |
| Big Four | 51% | 49% | |
| Fifth- to 10th-largest | 25% | 75% | |
| 11th- to 30th-largest | 21% | 79% | |
| Smaller than 30th-largest | 12% | 88% | |
| Total Respondents | 36% | 64% | |
| B. Firm Requires IFRS Training for Audit Personnel Assigned to IFRS Engagements | | | |
| By Firm Size: | | | |
| | Yes | No | |
| Big Four | 96% | 4% | |
| Fifth- to 10th-largest | 81% | 19% | |
| 11th- to 30th-largest | 74% | 26% | |
| Smaller than 30th-largest | 20% | 80% | |
| Total Respondents | 81% | 19% | |
| C. Average Hours of IFRS Training Required for Least Senior Member in IFRS Engagements | | | |
| By Firm Size: | | | |
| | 0-10 Hours | 11-40 Hours | More than 40 Hours |
| Big Four | 25% | 42% | 33% |
| Fifth- to 10th-largest | 42% | 55% | 3% |
| 11th- to 30th-largest | 50% | 45% | 5% |
| Smaller than 30th-largest | 22% | 78% | 0% |

(51%). In addition, a much higher percentage (81%) stated that such training was mandatory for individuals assigned to IFRS engagements. It is evident that such training is much more prevalent at the larger

40 hours would be necessary. Those numbers are in contrast to those at smaller firms, where the most striking difference is in the more-than-40-hours category, which had far smaller percentages.

The three most important sources of IFRS training cited by partners and managers were firm in-person seminars, IFRS-related work, and online firm seminars.

firms—Big Four, 96%; fifth- to 10th-largest, 81%; 11th- to 30th-largest, 74%—as opposed to only 20% for those smaller than the 30th-largest firms. For those individuals who were subject to mandatory IFRS education, 25% of those employed at the Big Four indicated that the least senior member of the audit would be required to have 10 or fewer hours of total education, 42% stated that 11–40 hours would be required, and 33% listed that more than

Sources of IFRS Knowledge Acquisition

Exhibit 4 focuses on how respondents acquired their current level of IFRS knowledge. The three most important sources of IFRS training cited by partners and managers were firm in-person seminars, IFRS-related work, and online firm seminars. Self-study was the fourth most used method. It is interesting—but not shown in the summary tables—that only seven individuals listed formal university courses as one of their top three sources of knowledge; perhaps it should not be surprising, however, given the current lack of IFRS curricula in universities, as mentioned above.

When analyzing the responses by firm size, the results were about the same across all firm sizes. The results in the category of firms smaller than the 30th-largest were fairly evenly spread among the sources of knowledge, except for university courses (least) and self-study (most frequent).

Sources of Future IFRS Knowledge Acquisition

Exhibit 5 indicates respondents' plans for obtaining IFRS knowledge. Eighty-one percent of the respondents indicated that they planned to acquire additional knowledge about IFRS. With regard to how they planned to acquire this knowledge, the rankings for partners and managers were almost identical to those in previous section, with in-person seminars being the most frequent, and online seminars and IFRS-related projects being almost the same. Again, self-study was the fourth most frequently cited method. As in the findings related to the acquisition of their current IFRS knowledge, these results were very similar across firm size.

Time Expected to Be Devoted to IFRS Knowledge Acquisition

Exhibit 6 breaks down the time that respondents expect to spend in IFRS educational activities over the next 12 months. Eighty-one percent of partners and 87% of managers stated that they would spend less than 40 hours. Very few stated that they would spend more than 80 hours. With regard to firm size, smaller firms reported

EXHIBIT 4

Most Important Source of Current IFRS Knowledge

(Based on the number of individuals who ranked the item among their top three sources of current knowledge)

By Position Within Firm:

| | Most Important | Second Most Important | Third Most Important |
|---------|--|----------------------------------|---------------------------------------|
| Partner | In-person seminars conducted by own firm | IFRS-related projects on the job | Online seminars conducted by own firm |
| Manager | In-person seminars conducted by own firm | IFRS-related projects on the job | Online seminars conducted by own firm |

By Firm Size:

| | Most Important | Second Most Important | Third Most Important |
|---------------------------|--|---|--|
| Big Four | In-person seminars conducted by own firm | Online seminars conducted by own firm | IFRS-related projects on the job |
| Fifth- to 10th-largest | In-person seminars conducted by own firm | Online seminars conducted by own firm | IFRS-related projects on the job |
| 11th- to 30th-largest | In-person seminars conducted by own firm | Self-study | IFRS-related projects on the job |
| Smaller than 30th-largest | Self-study | Online seminars conducted by outside firm or professional association | In-person seminars conducted by outside firm or professional association |

the largest percentages in the “less than 40 hours” range. In the next category (40 to 80 hours), while 15% of the Big Four fell in this range, the percentages for the other firms were very similar, ranging from 0% to 7%. As the time increases even further (80 to 200 and more than 200

hours), it is evident that, for the most part, only Big Four personnel are involved at these levels.

Costs Expected to Be Incurred

Exhibit 7 surveys the out-of-pocket costs expected to be incurred by both the indi-

viduals and firms in the acquisition of IFRS knowledge over the next 12 months. The results indicate that the most frequent category of responses (38% and 62% for partners and managers, respectively) was in the \$0–\$500 range, followed by the \$500–\$2,000 range. The fact that over 20%

EXHIBIT 5 Plans for Acquiring IFRS Knowledge

A. Respondent Plans to Acquire Additional Knowledge of IFRS

| By Position Within Firm: | | |
|---------------------------|-----|-----|
| | Yes | No |
| Partner | 83% | 17% |
| Manager | 76% | 24% |
| Total Respondents | 81% | 19% |
| By Firm Size: | | |
| | Yes | No |
| Big Four | 90% | 10% |
| Fifth- to 10th-largest | 77% | 23% |
| 11th- to 30th-largest | 73% | 27% |
| Smaller than 30th-largest | 56% | 44% |
| Total Respondents | 81% | 19% |

B. Most Important Expected Source of Future IFRS Knowledge

(Based on the number of individuals who ranked the item among their top three expected sources of future knowledge)

| | Most Important | Second Most Important | Third Most Important |
|---------------------------|--|--|----------------------------------|
| By Position Within Firm: | | | |
| Partner | In-person seminars conducted by own firm | Online seminars conducted by own firm | IFRS-related projects on the job |
| Manager | In-person seminars conducted by own firm | Online seminars conducted by own firm | IFRS-related projects on the job |
| By Firm Size: | | | |
| Big Four | In-person seminars conducted by own firm | Online seminars conducted by own firm | IFRS-related projects on the job |
| Fifth- to 10th-largest | In-person seminars conducted by own firm | Online seminars conducted by own firm | IFRS-related projects on the job |
| 11th- to 30th-largest | In-person seminars conducted by own firm | In-person seminars conducted by outside firm or professional association | IFRS-related projects on the job |
| Smaller than 30th-largest | In-person seminars conducted by outside firm or professional association | Online seminars conducted by outside firm or professional association | IFRS-related projects on the job |

of partners indicated that the costs would be over \$2,000 shows that the cost of acquiring IFRS knowledge is not insignificant. When distinguishing by firm size, the largest expected costs are in the Big Four category, with 37% of respondents in the \$0–\$500 range, 32% in the \$500–\$2,000 category, 24% in the \$2,000–\$10,000 range,

and 7% in the over \$10,000 category. The costs planned by firms in the fifth-largest through 10th-largest firm category, to a lesser degree, resemble this pattern.

Overall Preparation

This survey focused on the acquisition of IFRS knowledge by auditors with pub-

lic company clients. Perhaps one of the most important findings is that, although only about one-fifth of respondents participated in the audits of non-U.S. SEC registrants, over 80% stated that they intended to acquire IFRS knowledge through various educational activities within the next year. A similar percentage also stated that IFRS education was mandatory for individuals engaged in IFRS audits, versus only about one-third saying it was being required of all audit personnel.

When asked about the comfort level with their own current IFRS knowledge, respondents generally did not think that they had the current competence level to effectively engage in the audit of a company employing IFRS as its accounting model. They felt more comfortable in the audits of companies employing U.S. GAAP. In their current acquisition of IFRS knowledge, the three most important sources reported were: firm in-house seminars, online in-house seminars, and IFRS-related work. These three resources were also listed as the sources planned for use in obtaining future IFRS education. As to the time involved in IFRS educational activities planned over the next 12 months, about 81% of partners indicated that it would be in the range of less than 40 hours. Last, as far as the out-of-pocket costs expected to be incurred by the individual and the firm over the next 12 months, the majority of responses from partners and managers were in two ranges: up to \$500 and up to \$2,000. However, about 6% of respondents from the Big Four indicated that they would spend over \$10,000.

It appears from this survey that, although the use of IFRS is still perhaps half a decade away from being mandated by the SEC, significant IFRS educational activities are now being undertaken by auditors who have SEC registrants as clients. Furthermore, this knowledge acquisition will continue to occur for these individuals and consume a significant amount of their time and resources, as well as their firms' resources. The findings suggest that a future area of useful research would be to investigate auditors from smaller firms. □

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EXHIBIT 6
Time Expected to Be Devoted to IFRS Training and Other IFRS-related Activities in the Next 12 months

| | Less than 40 Hours | 40 to 80 Hours | 80 to 200 Hours | More than 200 Hours |
|---------------------------------|--------------------|----------------|-----------------|---------------------|
| By Position Within Firm: | | | | |
| Partner | 81% | 11% | 5% | 3% |
| Manager | 87% | 9% | 2% | 2% |
| By Firm Size: | | | | |
| Big Four | 76% | 15% | 7% | 2% |
| Fifth- to 10th-largest | 92% | 5% | 0% | 3% |
| 11th- to 30th-largest | 88% | 7% | 5% | 0% |
| Smaller than 30th-largest | 100% | 0% | 0% | 0% |

EXHIBIT 7
Out-of-Pocket Cost Expected to Be Incurred in Acquiring Knowledge of IFRS in the Next 12 Months

| | \$0–\$500 | \$500–\$2,000 | \$2,000–\$10,000 | Over \$10,000 |
|---------------------------------|-----------|---------------|------------------|---------------|
| By Position Within Firm: | | | | |
| Partner | 38% | 37% | 20% | 6% |
| Manager | 62% | 24% | 11% | 3% |
| By Firm Size: | | | | |
| Big Four | 37% | 32% | 24% | 7% |
| Fifth- to 10th-largest | 51% | 34% | 10% | 5% |
| 11th- to 30th-largest | 51% | 37% | 12% | 0% |
| Smaller than 30th-largest | 77% | 23% | 0% | 0% |

Note: Certain totals do not equal 100% due to rounding.

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