

**AICPA Auditing Standards Board and
International Auditing and Assurance Standards Board
Request for Proposals
For Research on**

Unqualified Auditor's Report Communications

Brief Summary of Request for Proposals

Anecdotal evidence suggests that financial statement users may not consistently understand the intended communications contained in the auditor's report. This Request For Proposal (RFP) solicits research useful to the AICPA's Auditing Standards Board (ASB) and the International Auditing and Assurance Standards Board (IAASB) as they each consider the effectiveness of auditor communications through the audit report. The key research objective is to identify and provide information about users' perceptions of the financial statement audit in connection with reading and considering the auditor's report. Both the ASB and the IAASB intend to select one or more proposals for funding (ranging between \$10,000 and \$20,000). Proposals should be submitted to Sharon Walker of the AICPA no later than October 2, 2006. Researchers will provide a summary of the results to the ASB and IAASB by October 1, 2007. Once the selected projects are completed, the ASB and IAASB anticipate funding additional research to identify possible modifications to the auditor's report that might improve the clarity of the auditor's intended communications to financial statement users. In light of this anticipated need for further research, if the researchers' plans are best considered in the context of a two-stage project, the researchers should provide a broad overview of the proposed overall plan, including an outline of research to be conducted in response to the anticipated follow-up RFP.

Overview

The ASB and IAASB will facilitate research opportunities for one or more teams of academics to perform research examining the nature of financial statement user perceptions of communications that occur through an unqualified auditor's report. Anecdotal evidence suggests that financial statement users may not consistently understand the intended communications contained in the auditor's report. As such, users may fail to understand the nature of a financial statement audit or the level of assurance that can be derived from an audit conducted in accordance with applicable auditing standards. This Request for Proposal (RFP) is intended to solicit academic research useful for the Boards' deliberations about auditor's report communications.

Little rigorous evidence exists regarding user perceptions of the communication that occurs through an unqualified auditor's report. Anecdotally, however, it appears that users may not consistently understand intended communications that occur in the auditor's report. For example, a user may mistakenly construe an unqualified auditor's report to indicate that a company's business model is sound or that the company

represents a good investment opportunity. Or, a user may conclude that an unqualified auditor's report provides absolute assurance that a set of financial statements are "accurate," not understanding the subjective nature of the judgments and estimates inherent in accounting information or that auditors do not test all transactions. Furthermore, some users may not understand the level of assurance intended to be conveyed by the auditor's report. The ASB and IAASB believe that the interests of all stakeholders will be better served if any gaps between user understanding and the intended meaning of the report, including the level of assurance that can reasonably be derived from a financial statement audit, can be identified and addressed.

Accordingly, this RFP is designed to solicit research proposals to examine user perceptions of the communications received by various classes of users through an auditor's unqualified audit report on financial statements. It is anticipated that this evidence will be used by the ASB and IAASB in their deliberations about the auditor's report on financial statements. The ASB and IAASB will facilitate access to participants and/or data for selected projects.

Broad Objective of the Research

The ASB and IAASB seek proposals for research relevant to one key objective: *to identify and provide information and insight on the nature of user perceptions regarding the financial statement audit and the auditor's report among various classes of financial statement and audit report users.*

Potential research issues related to the Boards' objective might include questions such as:

- What messages do readers perceive when they read an unqualified auditor's report, for example, related to the following:
 - Who is responsible for the financial statements?
 - What level of assurance does the auditor provide?
 - What information is the subject of the auditor's assurance?
 - Does the auditor observe appropriate standards?
 - Does the auditor examine all the transactions?
 - Do the financial statements agree with the company's records?
 - Have all identified misstatements (errors or fraud) been corrected?
 - Have the auditors looked for fraud and, if so, was any or all fraud identified?
 - Are internal controls adequate?
 - Does the company represent a good investment?
 - Is management effective in its oversight of the entity's strategy and objectives?
 - Are the financial statements completely accurate?
 - Were appropriate accounting principles used in the preparation of the statements?
 - Were the same accounting principles used as those used in the past?
 - Do the financial statements present a true and fair view (i.e., are they fairly presented)?

- How do users perceive the auditor's responsibilities for providing assurance about the detection of misstatements due to error or fraud?
- How do users perceive the auditor's responsibilities for accounts based on objective information versus accounts based on estimates and assumptions (e.g., fair value)?
- Do users' conclusions regarding communications through the auditor's report vary by class of user?
- Can users' conclusions and misperceptions, if any, be meaningfully organized or categorized?

This list of potential research questions is not all-inclusive. Rather, it is intended to provide direction and to stimulate the identification of further research questions. The ASB has conducted a preliminary search for prior literature on this subject. A summary of the literature review is available from Sharon Walker of the AICPA upon request (see below).

Research Methodology

The ASB and IAASB welcome proposals for any type of research methodology, including a survey approach. The proposal should describe the proposed methodology in enough detail for it to be clear and understandable. The ASB and IAASB anticipate the support of several organizations in the conduct of the research, including various organizations that are associated with user groups and audit firms.

In view of the ASB's efforts to converge with international standards, research within the United States may be based on either the auditor's standard unqualified report (SAS No. 58) or the IAASB's ISA 700 (Revised) report, or both. Outside the United States, the research should be based on the IAASB's ISA 700 (Revised) report. The proposal should clearly indicate whether the proposed research will focus on U.S. or international financial statement users and should indicate the type(s) of users to be included in the research (e.g., investors, creditors, analysts, non-public regulators, etc.).

Researchers must complete projects and summarize preliminary results for consideration by October 1, 2007. Therefore, research proposals should reflect methodologies that can be conducted during an appropriate time frame to deliver the preliminary research findings by that date.

Publication of Research Results

Researchers will provide a summary of the results to the ASB and IAASB by October 1, 2007. The summary should be tailored toward an audience of practitioners rather than toward an audience of academicians. Researchers also will provide a more detailed report to the Boards by January 7, 2008.

Researchers will have the right to publish the research in any journal or other publication they wish, so long as the Boards are given appropriate credit for research support provided.

Potential for Follow-up Project

Once the selected projects are completed, the ASB and IAASB anticipate funding additional research to identify and explore ways in which the auditor's report might be revised to communicate more clearly and to address identified user misperceptions. Researchers successfully completing a useful and informative project relating to this RFP will receive high priority consideration for funding in the anticipated follow-up project. As such, researchers may wish to prepare their proposal in the context of a two-stage project addressing the objective stated in the current RFP as well as the objective of the anticipated follow-up. If the researchers' plans are best considered in the context of a two-stage project, the researchers should provide a broad overview of the proposed overall plan, including an outline of research to be conducted in response to the anticipated follow-up RFP.

Proposal Content

Proposals should contain the following information and should not exceed 10 pages in total (excluding résumés):

- Understanding of objectives;
- Proposed research methodology (including both stages if appropriate);
- Data requirements, including how confidentiality will be preserved;
- Discussion of how the research will address the broad objective of this RFP;
- Timetable with various milestones to deliver a summary of research by October 1, 2007, along with budget and funding needs; and
- Brief statements of particular qualifications of the researcher(s) that relate to the requirements of the project, plus a one page résumé for each participating researcher (lengthy academic vitae should not be included).

Funding

Funding of between \$10,000 and \$20,000 as a stipend is anticipated for each selected project, depending on the nature and scope of the project, in addition to reimbursement for reasonable out-of-pocket expenses. Research proposals should include estimates of out-of-pocket expenses that would be associated with the particular research methodology proposed. For example, if the research methodology involves web survey design or travel to interview or collect data in some other manner, the proposal should indicate the anticipated costs. In the event a proposal is selected, but the total support requested is not available (e.g., stipend, out-of-pocket expenses, or auditing firm support), the applicant will be contacted concerning willingness to conduct a study modified in those terms or to seek additional funding from other organizations.

Evaluation criteria

A task force of practitioners and academics will evaluate all proposals. The Task Force will use the following criteria:

- Researchers' understanding of the objective of the research
- Researchers' ability to meet timeframes outlined above
- Research methodology, including whether the research is likely to meet the objectives
- Researchers' experience in successfully conducting similar research
- Researchers' familiarity with prior research on this topic

Proposal Deadline

Research proposals must be submitted by October 2, 2006 to:

Sharon Walker
Technical Manager, Audit and Attest Standards
American Institute of Certified Public Accountants
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New York, NY 10036-8775