

# An investigation into audit choice for companies listed on the Irish Stock Exchange

By Sandra Ann Long, B.A.

July 2007

*This dissertation is submitted in partial fulfilment of the  
requirements for the Degree of MA in Accounting, Letterkenny  
Institute of Technology.*

Word Count: 12,160

Presented to: Ms. Anne Burke,  
Department of Business,  
School of Business,  
Letterkenny Institute of Technology

**Disclaimer 1:**

I hereby certify that the material, which I now submit in partial fulfilment of the requirements for the Degree of Master of Arts in Accounting is entirely my own work and has not been obtained from the work of any other, except any work that has been cited and acknowledged within the text of my work.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

**Disclaimer 2:**

I agree that this thesis may be used by Letterkenny Institute of Technology for teaching purposes.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

## **Abstract**

Companies listed on the Irish stock exchange have complicated accounting requirements and procedures compared to the smaller private companies in Ireland. Many smaller audit firms cannot provide this type of work and therefore there is the perception that listed companies can only look to the Big Four. This then begs the question; ‘Do listed companies have a choice of auditor?’

Presently there is a lot of interest in the area of competition and choice in the audit market. In 2006 the UK’s Department of Trade and Industry (DTI) and the Financial Reporting Council (FRC) commissioned a report to Oxera into ‘Competition and choice in the UK audit market’. Previously in 2003 the General Accounting Office (GAO) in the USA made two reports to the US Senate on competition in the audit market in the USA. Since the collapse of the last big firm Arthur Anderson in 2002, there is much concern about what would happen if the present Big Four were to become the Big Three.

The researcher did an extensive literature search on the area of choice in the audit market and then sent questionnaires to the Chief Financial Officer of every company listed on the Irish Stock Exchange. The researcher also interviewed a partner from a mid-tier firm to discover their views and opinion on the topic.

It was found that more than 50 percent of respondents felt that there was currently enough choice in the audit market; however, the literature and the interviewee disagreed. Many respondents would not consider the mid-tier firms as their auditor and many mid-tier firms were not well known to the respondents.

In conclusion it would seem that perception and reputation have a great deal of influence over the choice of auditor. Therefore if changes were made in the audit market to make information more freely available about the mid-tier firms’ capabilities, perhaps there would be more choice in the market that currently people just do not know about. The competition authorities in this country and others would need to consider choice in the audit market before there is no choice at all.

## Acknowledgements

I would like to sincerely thank the following people for their help in completing this dissertation:

- My supervisor, Ms Anne Burke for all her time, encouragement and guidance during the year.
- Mr Michael Margey, my research lecturer.
- All the respondents to my questionnaire, who took the time to complete and return them.
- The interviewee from a mid-tier firm, who kindly gave me their time and opinions.
- The LYIT library staff, the LYIT business school lecturers and the LYIT computer services staff, whom were very kind, dutiful and obliging.
- Jennifer for proof reading my dissertation twice.
- The Masters of Accounting class who made a difficult year a memorable one.
- My parents and my sisters for their support during my years as a student.
- Finally, Richard.

## List of Tables & Figures

### Page Numbers

#### Tables

3.1	The main features of positivism and interpretivism	16
3.2	Advantages and disadvantages of tape-recording an interview	22
4.1	Scenarios to change auditor	26

#### Figures

3.1	Types of questionnaire	20
4.1	Position of respondents in their company	25
4.2	Frequency of tendering by companies	28
4.3	Significant differences in the quality of an audit provided by the non Big Four firms compared to the Big Four firms	30
4.4	Choice in the audit market	32
4.5	The likelihood of considering a non Big Four firm if the respondents audit firm went out of business	34

## Table of contents

	<b>Page Number</b>
Abstract	i
Acknowledgements	ii
List of tables & figures	iii
Table of contents	iv
<b>Chapter 1: Introduction</b>	
1.1 Introduction	1
1.2 Research aims and objectives	1
1.3 Rationale for the research and limitations to the research	2
1.4 Chapter outline	3
<b>Chapter 2: Literature Review</b>	
2.1 Introduction	4
2.2 Audits of listed companies	4
2.2.1 United States of America	4
2.2.2 United Kingdom	4
2.2.3 Ireland	5
2.3 Causes of audit market concentration	6
2.4 Impact of concentration on the market	7
2.5 Auditor selection criteria	9
2.6 Barriers to entry for non Big Four firms	9
2.7 Alternatives to Big Four and recommendations for the future	11
2.8 What if only Big Three?	12
2.9 Conclusion	13
<b>Chapter 3: Research Methodology</b>	
3.1 Introduction	14
3.2 Research philosophy	14
3.2.1 Positivism/Interpretivism	15
3.2.2 Research philosophy adopted	16
3.3 Research approach	18

	<b>Page Number</b>
3.4 Research focus	18
3.5 Data collection methods	18
3.5.1 Questionnaires	19
3.5.2 Interviews	20
3.6 Data analysis	22
3.7 Secondary research	22
3.8 Conclusion	23
<b>Chapter 4: Findings &amp; Analysis</b>	
4.1 Introduction	24
4.2 Analysis of survey results and interview findings	24
4.2.1 Demographic results	24
4.2.2 The main criteria in selecting an auditor	25
4.2.3 The main barriers to entry for non Big Four firms	27
4.2.4 The alternatives to an audit from the Big Four	31
4.2.5 Recommendations to increase choice in the audit market	32
4.2.6 What would happen if one of the Big Four were to disappear	33
4.3 Conclusion	34
<b>Chapter 5: Conclusions &amp; Recommendations</b>	
5.1 Introduction	35
5.2 Overview of the main findings	35
5.2.1 The causes of audit market concentration	35
5.2.2 The impact of audit market concentration on the market	36
5.2.3 The main criteria in selecting an auditor	36
5.2.4 The main barriers to entry for non Big Four firms	37
5.2.5 The alternatives to an audit from the Big Four and recommendations to increase choice in the audit market	39
5.2.6 What would happen if one of the Big Four were to disappear	39
5.3 Recommendations	40
5.4 Areas of future research	41
5.5 Conclusion	41



	<b>Page Number</b>
<b>Appendices</b>	
➤ A Cover letter for survey	42
➤ B Survey: Audit choice for companies listed on the Irish Stock Exchange	43
➤ C Summary of results from survey	
➤ D Transcript from interview with mid-tier firm	62
➤ E Oxera’s Audit committee chairs survey	66
➤ F Top 20 accountancy firms by fee income in Ireland	73
➤ G Companies listed on the Irish Stock Exchange	74
➤ H List of abbreviations	76
<b>Bibliography &amp; References</b>	77

# Chapter 1

## Introduction

### 1.1 Introduction

Companies listed on the Irish Stock Exchange have complicated accounting requirements and procedures compared to the smaller private companies in Ireland. Listed companies require experts in their industries that know their financial needs. Many smaller audit firms cannot provide this type of work and therefore there is the perception that listed companies can only look to the Big Four to have an audit and this is examined in more depth in the dissertation. The Big Four audit firms in Ireland are Deloitte and Touche, Ernst and Young, KPMG and PriceWaterhouseCoopers. As listed companies are on such a vast scale sometimes it is only the Big Four that have the resources to conduct the audit. This then begs the question, ‘Do listed companies have a choice of auditor?’ Choice is further restricted by independence rules, as an audit firm that carries out certain non-audit services on a client may not conduct the audit as well.

### 1.2 Research aims and objectives

This dissertation aims to address the following issues:

1. How has the audit market evolved in the past 20 years?
2. Do listed companies have a choice when selecting an auditor?
3. What is the future of choice in the audit market?

The research objectives are to:

1. Find the causes of audit market concentration.
2. Discover the impact of audit market concentration on the market.
3. Determine the main criteria in selecting an auditor.
4. State the barriers to entry to the audit market of listed companies by non Big Four firms.
5. Describe the alternatives to an audit from the Big Four.
6. Investigate recommendations to increase competition in the audit market.
7. Investigate what would happen if one of the Big Four were to disappear.

These aims and research objectives are discussed in more detail in chapter three.

### **1.3 Rationale for the research and limitations to the research**

The nature of competition in the audit market has been a subject of interest since the late 1970's (Kwon, 1996). Presently there is a lot of interest in the area of choice in the audit market as there are now only four global audit firms. In 2006 the UK's Department of Trade and Industry (DTI) and the Financial Reporting Council (FRC) commissioned a report by Oxera into 'Competition and choice in the UK audit market'. Similarly, in 2003 the General Accounting Office (GAO) in the USA made two reports to the US Senate on competition in the audit market.

However, there has been no specific research into audit choice in Ireland. Research into this area is important because it should state what the barriers to entry are for smaller firms and give some insight into possible solutions to provide more choice. Many large listed companies in the UK reported an effective choice of only two or three audit firms and in a small number of cases, companies may have no effective choice of auditor at all in the short term (Hambly, 2006). The fact that listed companies have no effective choice of auditor at all is very alarming and if the market were to reduce to only a Big Three, what then would some of these companies do? The government and the competition authority in Ireland and possibly some other countries need to look at this issue before it becomes a reality, as the availability of a strong audit profession is a core component in Ireland's recent economic success (O'Halloran, 2007).

According to Koehler (2006) the gap separating the Big Four and the vast majority of audit service providers is enormous. The auditing sector is marked by a stark contrast between four global firms accounting for the bulk of industry revenue while small firms account for the bulk of industry numbers. Koehler (2006) also notes that authorities are looking for ways to improve the audit market structure and entry conditions.

This research could be used by the mid-tier audit firms in order to design strategies that surpass the barriers to entry in the audit market. Hopefully this research will give some suggestions as to what such firms could do to improve their position in the market place.

The audit committees of listed companies could also use this research. Audit committees need to know that there are alternatives to the Big Four and that they are viable. At present there is an information gap about the services the mid-tier firms can offer and what services the audit committees think the mid-tier firms can offer (Interviewee 1; GAO, 2003a; London Economic, 2006; Oxera, 2006). However, mid-tier firms will not be a direct alternative for all listed companies due to their business type.

The potential use of this research will have limits, as there are some things about the audit market that cannot change or will take a long period of time to change. The limitations to the research were access to information, time and money. The postal survey's main limitation was that it does not allow the researcher to seek further explanation on some points that the respondent may wish to state. The researcher only had two months to conduct the primary research so there was limited time for collecting the data.

The researcher had only the time to interview one partner; it would have been better if the researcher could have interviewed all the top 20 firms in Ireland as in Appendix F. Another major limitation with interview findings was the researcher's bias, however to prevent this happening too much the interview was tape-recorded and the transcript typed soon after.

#### **1.4 Chapter outline**

The literature for the choice of audit firms for large companies listed was critically reviewed in chapter two. The research methodology is outlined in detail in chapter three and the findings and analysis of the semi-structured interview and questionnaires are described in chapter four. Finally, the conclusions and recommendations are discussed in chapter five.

## **Chapter 2**

### **Literature Review**

#### **2.1 Introduction**

This chapter considers previously written literature on the nature of choice in the audit market for large companies.

#### **2.2 Audits of listed companies**

As a company becomes larger, more complex, more international, so too does their audit requirements change. The audits of large public companies are materially different to that of smaller companies, and at present the Big Four are only considered by audit committee chairs (Oxera, 2006). This view is backed by UK mid-tier audit firms Grant Thornton and BDO Stoy Hayward, who recognize that the largest companies require such specialist technical skills that they currently need Big Four auditors (Perrin, 2006a).

##### **2.2.1 United States of America**

After the Enron and Arthur Anderson failures and the changes in the auditing environment from the Sarbanes-Oxley Act in the USA, the Big Four partners claim to be more conservative regarding client retention and acceptance decisions. This generally means that the Big Four have become more aggressive in shedding smaller audit clients (Rama and Read, 2006). These changes have also prompted concerns about concentration of the largest accountancy firms and the possible effect on competition (GAO, 2003a). GAO (2003b) found that the majority of respondents to their survey were satisfied with their current auditor and that the longer a client had the same auditor the happier they were. Many respondents to the GAO (2003b) survey were concerned at the level of choice especially when 88 percent said that they would not use the services of non Big Four auditors instead.

##### **2.2.2 United Kingdom**

The Coordinating Group on Audit and Accounting (CGAA, 2003a) agree with the Office of Fair Trading's (OFT, 2004) conclusions that the market for auditing and accounting is highly concentrated and they welcomed the OFT's commitment to keep

the market under review. An Audit Quality Forum report published in July 2005 called for research on competition and barriers to choice in the audit market in the UK (AQF, 2005c). Then the DTI and FRC commissioned a study in September 2005 on ‘Competition and choice in the UK audit market’ by Oxera. Oxera (2006) found that the Big Four audit firms audit all but one of the FTSE 100 companies, and represent 99 percent of audit fees in the FTSE 350.

### **2.2.3 Ireland**

Carr (2006a) concludes that the risks identified by Oxera (2006) apply equally in Ireland. These include limited choice, increased potential for conflict of interest and a possible threat to the integrity of the system if the profession was to encounter another shock like that of the Arthur Anderson failure. The failure of one of the Big Four would have a very significant and detrimental impact on the attractiveness of Ireland as a commercial market place (Wilson, 2007). Grant Thornton (2007) agrees with the Minister of State for Trade and Commerce when he warned that the lack of choice could badly affect the wider corporate sector in Ireland. The Minister said that:

*‘Ireland’s successful inward investment thrust and thriving financial services sectors have not, and cannot, survive without a competitive auditing services infrastructure’.*

Carr (2006a) thinks that non Big Four auditors need to differentiate themselves by specializing in sectors where they have the required skills. This was evidenced by the growth of Grant Thornton in Ireland, which was driven by the firm’s strategy of developing its expertise in specialist services. Raleigh (Managing partner of Grant Thornton) states that they are now providing these services to former Big Four clients (Kennedy, 2007a). PKF Ryan Glennon another mid-tier firm in Ireland has a niche in the entertainment industry (McGinley, 2006). This supports the mid-tier firms’ claims that they have swept up business in specialist service areas where the Big Four may face conflicts of interest.

Auditors of Irish companies are prohibited by law from incorporating and are required by law to have unlimited liability in relation to audit work. O’Halloran (2007) writes that this regime strongly prevents competition in the sector and exposes our public

companies and our funds in industry to associated risk. The audit market will become more competitive by creating a sensible and realistic liability regime, which will make it attractive to those mid-tier firms who believe they can compete with the Big Four already if the risks were lower (Wilson, 2007).

Another significant development is the 8<sup>th</sup> EU Directive, which requires recognition of statutory auditors from one Member State by other Member States. The ability of these audit firms to audit in Ireland while being subject to a very different liability regime in their home State is unfair to Irish audit firms and is not a sustainable position (Wilson, 2007). Therefore the recent announcement by Minister Michael Ahern regarding the Company Law Review Group (CLRG) to consider law in Ireland relating to auditor liability was seen as a welcome and timely move by many (Lambe, 2007). Aidan Connaughton (Head of Risk Management in Grant Thornton) also welcomed this decision stating that the auditing profession in Ireland is the only profession that cannot limit its liability under domestic law. This, in addition to the legal principle of joint and several liability, leaves auditors potentially accountable on a personal basis for losses not just arising from their own actions but also that of others, for example, company directors who may be significantly responsible but who do not have the resources to meet claims against them (O'Connor, 2007).

A recent report by Grant Thornton found that 96 percent of Irish companies are audited by the Big Four (Shoesmith, 2007).

### **2.3 Causes of audit market concentration**

In the early eighties there were the Big Eight firms, namely: Klynreld Main Goerdeler; Deloitte, Haskins and Sells; Touche Ross; Ernst & Whinney; Arthur Young; Price Waterhouse; Coopers and Lybrand; and Arthur Anderson (Beattie et al, 2003; GAO, 2003a).

In 1987 Klynreld Main Goerdeler merged with Peat Markick to become KPMG Peat Marwick (now known as just KPMG); in 1989 Ernst & Whinney merged with Arthur Young to form Ernst & Young; Deloitte, Haskins and Sells merged with Touche Ross to become Deloitte & Touche. This now left the market with the Big Six (Beattie et al, 2003; GAO, 2003a). Then Price Waterhouse merged with Coopers and Lybrand in

1998 to form PricewaterhouseCoopers (Beattie et al, 2003; GAO, 2003a). Finally, in 2002 Arthur Anderson collapsed after a reputation loss suffered from the accounting and auditing scandals associated with Enron, to leave the Big Four (Beattie et al, 2003).

#### **2.4 Impact of concentration on the market**

McMeeking (2007) and Oxera (2006) found that price competition is significant at the initial tendering stage but audit fees have increased as a result of increasing concentration levels. However, Evans (2006) states that the Oxera (2006) analysis is deeply misleading as the justification for the above evidence lies in an econometric study that demonstrates correlation and not causation. Menon and Williams (2001) disagree because they found that audit firm mergers had no long-term effect on audit fees. Other researchers such as Iyer and Iyer, 1996; Tai and Kwong, 1997; Ivancevich and Zardkoohi, 2000; Firth and Lau, 2004; McMeeking et al, 2006 (all cited by McMeeking, 2007) have addressed the pricing issue by comparing audit fees before and after the mergers, but their results were mixed.

Oxera (2006) writes in their findings that the Big Four do seem to charge higher audit fees than the mid-tier firms. The fees were found to be 18 percent higher for clients using the Big Four. A reason for this Big Four ‘premium’ is that companies would be less likely to sue smaller audit firms given their ‘smaller pockets’, and this then makes it viable for smaller auditors to accept riskier clients. This legal liability threat drives the Big Four to charge higher fees as an ‘insurance premium’ for future legal proceedings (Gonthier-Besacier and Schatt, 2007; Raghunandan and Rama, 1999). But, this pricing issue does not seem to be a problem as in general audit committee chairs focus more on quality than on price. Oxera (2006) points out that the changes in regulations are part of the increase in costs of audits as well.

Ivancevich and Zardkoohi (2000), Pearson and Trompeter (1994) and Tonge and Wooton (1991) all conclude that mergers between big audit firms produced more competition for companies. They argue that even though there would be fewer competitors, competition would be increased and stimulated because the remaining firms would have more comparable resources, therefore the mergers were pro-competitive from their findings. However, Beattie et al (2003) argues that the



reduction in the number of active audit firms in the audit market did reduce consumer choice and increased the likelihood of conflicts of interest. This view was already pointed out years earlier when Kwon (1996) suggests that as a company's industry becomes more concentrated, companies will seek to use audit firms different from that of their competitors. An example of this is in the banking industry where there are four major banks in Ireland – Allied Irish Bank are audited by KPMG, Bank of Ireland are audited by PricewaterhouseCoopers, Ulster Bank (under parent of Royal Bank of Scotland) are audited by Deloitte and Touche and National Irish Bank (under parent Danske Bank Group) are audited by KPMG and Grant Thornton as a joint audit under Danish law.

The Big Four have a virtual monopoly in auditing the large company sector in nearly every country (Koehler, 2006). Oxera (2006) found that a limited number of UK listed companies have no effective choice of auditor in the short term. This is due to high market concentration, auditor independence rules, supply side constraints, and the need for sector expertise. Over one third of the FTSE 350 audit committee chairs surveyed feel that their company does not have a sufficient choice of auditor. This point is further reiterated by Cunningham (2005) who writes that many companies have no choice but to choose a large firm.

Oxera (2006) found that many large companies are worried about the combination of increased competition and tighter auditor independence regulations, which have reduced competitive pressure in the market. However, the OFT (2002) conducted a preliminary inquiry into whether there are competition problems in this sector. They did not find any evidence to suggest that the firms have acted to prevent, restrict or distort competition. So at that time they concluded that they would not launch an investigation into the market or refer it to the Competition Commission. The GAO (2003a) also found no evidence to suggest that competition has been impaired in the audit market to date in the USA.

It is ironic that those companies whom most need an auditor are finding it difficult to recruit an auditor. Oxera's (2006) interviewees noted that the largest companies, who have the most bearing on investor confidence, are those with fewest alternatives to their current auditor.

## **2.5 Auditor selection criteria**

The most important determinants of choice are reputation, sector specific skills, international coverage, and quality of staff (Oxera, 2006).

Harwood (senior audit partner at Baker Tilly) believes that part of the problem for audit choice is that the switching rates are low for auditors (Perrin, 2006a). This point is further evidenced by Oxera (2006) as they found that no FTSE 100 or 250 companies have ever switched from a Big Four firm to a mid-tier firm in their 10 year dataset. Ghosh and Lustgarten (2006) also conclude that clients of the Big Four switch less often than other companies who have non Big Four auditors.

## **2.6 Barriers to entry for non Big Four firms**

GAO (2003a), London Economic (2006) and Oxera (2006) found that a substantial entry by non Big Four firms is unlikely because of high costs of entry, a long payback period for investment, and barriers to entry. These barriers include: perception bias, reputation, capacity and breadth of their networks, exposure to unlimited liability, very limited professional insurance availability, lack of staff, industry and technical expertise, capital formation, independence issues and global reach.

The OFT (2001) and Oxera (2006) found that large companies prefer to use the Big Four because they think that their investors feel more comfortable if the accounts are audited by a firm with a known reputation. This was backed up by Pittman and Fortin (2004) whose evidence suggest that choosing a Big Four auditor can reduce debt monitoring costs by enhancing the credibility of the financial statements.

Oxera (2006) discovered that reputation is an important driver of choice, whether based on real or perceived differences with the mid-tier firms. In the perception of most FTSE 350 companies, the Big Four are better placed to offer the components of the audit service. This barrier is also pointed out by McMeeking et al (2006) who believe that an advantage exists for the Big Four because their reputation and depth of resources put them in a strong position to mitigate the agency and costly contracting costs that are becoming more significant for large companies.

GAO (2003a) found that 91 percent of the public companies that they surveyed said that the reason why they would not consider the mid-tier firms as an alternative to the Big Four is that they did not have the technical skills or knowledge of their industry. This view was evidenced by Oxera (2006) who found a general view that the Big Four have greater resources and geographical reach to carry out the technical audit for larger companies. The Big Four are thought to be better informed on the latest developments in international accounting standards. McMeeking et al (2006) asserts that market concentration is particularly high for companies of above average size.

According to Beattie and Fearnley (1998) fees are the most common reason for considering auditor change and influence the choice of new auditor. They found that tenders resulted in significant fee reductions in the year of change. In contrast, Oxera (2006) disagrees with this as there are costs involved when switching auditor: the process of 're-educating' the new auditor, the auditor selection process and the potential costs of sending a negative signal to the capital market.

Koehler (2006) states that auditors' unlimited liability deters market entry for smaller firms. The ability of even the Big Four to meet massive claims is severely limited by the non-availability of adequate professional indemnity insurance. The Big Four in recent years have found it impossible to obtain commercial insurance at any price in the market that is sufficient to cover the risks that they are exposed to. This is an indicator that the market generally perceives the risks that auditors carry to be uninsurable and as a result the Big Four have had to rely on their own captive insurance vehicles, which have insufficient resources to meet the level of claims that auditors are exposed to (Wilson, 2007).

The new independence rules under the Sarbanes-Oxley Act of 2002 may also limit the choice for some public companies (GAO, 2003a). The scale of additional revenue from a large public company could raise independence issues for mid-tier firms. Oxera (2006) found that most mid-tier firms would not want to just audit one large public company as this would absorb too much of their resources and the Auditing Practices Board's (APB, 2004) Ethical Standards provide that non-audit fees from one client should not exceed 10 percent of a firm's revenue.

## **2.7 Alternatives to Big Four and recommendations for the future**

Joint audits can ensure that an audit is performed with due diligence because of the existence of a cross-review and reciprocal monitoring procedures between co-auditors. The presence of more than one auditor is perceived to protect independence, especially the objectivity of professional judgement, by diluting the effect of managerial pressures across two or more auditors (Piot, 2007; Carr, 2006a). However, Piot (2007) concludes that the joint-auditing regime does not seem to favour routine collaborations between the main audit suppliers and the study indicated that the audit market has remained relatively open and competitive. But BDO Stoy Hayward have rejected any proposal to have joint audits stating that it would cause tension between rival firms and ramp up costs (Perrin, 2006a).

GAO (2003a) and the London Economic report (2006) found that in general any new firm from mergers of the present mid-tier firms would still lack the resources needed to compete to any significant degree with the Big Four. The head of the Public Company Accounting Oversight Board (PCAOB) states that the lack of competition in the audit market would not be solved by any of the mid-tier firms growing big enough to join the Big Four (Solomon and Gullapalli, 2005).

McMeeking (2006 and 2007) suggests amending legislation to introduce other sources of audit into the market, such as the Comptroller and Auditor General, Her Majesty's Revenue and Customs (HMRC) and National Audit Office and that competition could be gradually improved if the government introduced incentives to encourage the growth of the mid-tier auditors.

Liu and Simunic (2005) model shows that firms may strategically differentiate themselves by choosing different profit sharing rules in order to specialize in different types of clients. This means that the firms avoid cutthroat competition and earn positive economic profits from their niche markets.

Newman (BDO's managing partner) states that their best chance of getting more public company audits is by acting for some clients that get promoted to the FTSE 350 and persuading them that they do not need a Big Four auditor (Perrin, 2006a).

McMeeking (2006) suggests that there should be mandatory disclosure of detailed information about the company's motivation for recruiting and changing their auditor and the company's view of the quality and effectiveness of their auditor. This then should increase competition as audit committees would have more information to compare auditors. Newman (2007) and the Financial Times (2006) write that there needs to be greater transparency which will help in the creation of a more dynamic and competitive audit market committed to the delivery of the highest quality audits. The FRC (2007) in their interim report listed recommendations to improve choice in the audit market. These included greater transparency of the capabilities of the audit firms and audit firms should disclose the financial results of their work on statutory audit on a comparable basis to name only a few.

Wallace (1987); Beattie and Fearnley (1995); Smith (2005) cited by McMeeking, (2006) and Koehler (2006) all agree that competition would be improved if auditor liability regulations were relaxed as the removal of this 'deep pockets' barrier would allow new smaller firms enter the audit market. The relationship between audit market structure and audit liability is empirically unsubstantiated, but, countries with caps on auditors' liability are not known to have conspicuously higher intensity of audit market competition for big clients (Koehler, 2006). However, the OFT (2004) does not find the argument for capping auditors liability compelling.

### **2.8 What if only Big Three?**

Since the collapse of the last big firm Arthur Anderson in 2002, there is much concern about what would happen if the present Big Four were to become the Big Three. It has been widely argued that there is a small but real risk of a massive claim for financial damages causing the collapse of one or more of the remaining Big Four firms, leading to even higher levels of concentration in the audit market and reduced competition between the remaining three large auditors (OFT, 2004; London Economics, 2006).

Perrin (2006b) and Oxera (2006) state that if the market were to lose one of the Big Four this would make problems worse for auditor choice, requiring regulators to make exceptions to auditor independence rules. Governments elsewhere have recognized the risk of the global impacts of the failure of a local auditor and are working to put

fairer regimes in place that militate against such occurrences. Ireland needs to be mindful of this and seek to ensure that it does not happen here (Wilson, 2007).

Oxera's (2006) evidence suggests that if the market was to reduce to a Big Three it would still be unlikely for one of the mid-tier firms to try and become a major challenger of the remaining three firms and unless perceptions change about the mid-tier firms it would still be unfeasible to enter the market at this stage.

Jan Babaik (cited by Jopson, 2007) points out that the current Big Four have had a brush with reality in recent times. Ernst and Young faced a challenge from its former audit client Equitable Life in the UK courts and eventually emerged triumphant. KPMG had to pay a fine of \$456m in 2005 to the US Department of Justice and narrowly escaped criminal action after admitting to selling 'fraudulent' tax avoidance schemes. Deloitte agreed to pay \$149m to settle the allegations that it helped to prolong fraud at Parmalat, prior to its collapse in 2003. PricewaterhouseCoopers also was forced to downsize its operations in Japan after local regulators banned it for two months in 2006 for having poor controls that contributed to fraud of a client.

If the audit market were reduced to a choice of three then the three remaining firms will look critically at their listed entities, particularly at the riskier companies and decide if they should keep those clients who they consider to have an uneconomic level of risk or worse again perhaps exit that particular sector of the audit market completely. This would leave many of world's riskier companies without an auditor (Wilson, 2007).

## **2.9 Conclusion**

This chapter has considered how the market has evolved into a dominated Big Four and the impact on the audit market. It also outlined the barriers to entry, alternatives and recommendations for the audit market of large companies.

# Chapter 3

## Research Methodology

### 3.1 Introduction

This chapter identifies and explains the research methodology adopted which will include the aims and objectives of the research, the research process, data collection methods used and the data analysis method used.

Sekaran (2003, p5) defines research as:

*‘an organized, systematic, data-based, critical, objective, scientific inquiry or investigation into a specific problem, undertaken with the purpose of finding answers or solutions to it.’*

Whereas, Collis and Hussey (2003, p55) state that the:

*‘methodology refers to the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data.’*

Therefore one could describe research as an investigation into a specific problem, while the methodology is the overall approach to this.

### 3.2 Research philosophy

The research philosophy depends on the way we think about the development of research and this then affects the way we go about doing research (Saunders et al, 2003). The research paradigm is the general approach to the research. Collis and Hussey (2003, p46) state the term ‘paradigm’ refers to:

*‘the process of scientific practice based on people’s philosophies and assumptions about the world and the nature of knowledge; ... about how research should be conducted.’*

Two research paradigms dominate the literature; these are referred to as positivism

and interpretivism. They are different, if not mutually exclusive, views about the way in which knowledge is developed and judged as being acceptable (Saunders et al, 2003).

Positivism is when there is only one truth that all agree upon, it is a structured approach to collecting data, which is analyzed and interpreted in a factual statistical manner. While interpretivism, otherwise referred to as phenomenology, has many truths and is a more flexible approach to the collection of data that focuses on the meanings behind the research. The subject matter of audit choice for listed companies could possibly have many truths.

### **3.2.1 Positivism/ Interpretivism**

Saunders et al (2003) suggests that if the research philosophy reflects the principles of positivism then the researcher will probably adopt the philosophical stance of the natural scientist. Positivism implies that the researcher is:

*‘working with an observable social reality and that the end product of such research can be the derivation of laws or law-like generalizations similar to those produced by the physical and natural scientists.’* (Remenyi et al, 2003, p32)

Saunders et al (2003) and Remenyi et al (2003) refer to the researcher as an objective analyst in this tradition. Positivism is based on the concept that other similar studies should be comparable and achieve similar results.

However, according to Saunders et al (2003) the researchers critical of positivism argue that the rich insights into this complex world are lost if such complexity is reduced entirely to a series of law-like generalizations. Therefore interpretivism was developed due to the criticisms of positivism. Collis and Hussey (2003) list the main criticisms of the positivistic paradigm which include: it is impossible to treat people as being separate from their social contexts and they cannot be understood without examining the perceptions they have of their own activities; a highly structured research design imposes certain constraints on the results and may ignore more relevant and interesting findings; researchers are not objective, but part of what they



observe; capturing complex phenomena in a single measure is at best misleading, for example, is it possible to assign a numerical value to a person's intelligence?

Interpretivism assumes that the social world is continually changing and that the researcher is a part of this. In contrast to the positivist paradigm, rather than studying facts and developing a series of law like generalization, interpretivism is concerned with understanding and appreciating the different constructions and meanings that people place on their experience (Easterby-Smith et al, 2002; Saunders et al, 2003). According to Collis and Hussey (2003) what is researched cannot be unaffected by the process of the research.

The table below summaries the main features of the two paradigms and contrasts the differences between them:

**Table 3.1 The main features of Positivism and Interpretivism**

<b>Positivism</b>	<b>Interpretivism</b>
Tends to produce quantitative data	Tends to produce qualitative data
Uses large samples	Uses small samples
Concerned with hypothesis testing	Concerned with generating theories
Data is highly specific and precise	Data is rich and subjective
The location is artificial	The location is natural
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalizes from sample to population	Generalizes from one setting to another

(Collis and Hussey, 2003, p55)

### **3.2.2 Research philosophy adopted**

The choice of research philosophy will depend on the research aims and objectives.

This dissertation aimed to address the following issues:

- How has the audit market evolved in the past 20 years?
- Do listed companies have a choice when selecting an auditor?
- What is the future of choice in the audit market?

The research objectives were to:

- Find the causes of audit market concentration.
- Discover the impact of audit market concentration on the market.
- Determine the main criteria in selecting an auditor.
- State the barriers to entry to the audit market of listed companies by non Big Four firms.
- Describe the alternatives to an audit from the Big Four.
- Investigate recommendations to increase competition in the audit market.
- Investigate what would happen if one of the Big Four were to disappear.

The data collections methods were: literature previously written on the topic, questionnaires and a semi-structured interview. These are discussed in more detail in sections 3.5 and 3.7.

The first research aim was refined into the first two objectives. These objectives were answered solely by the literature. The next aim of the research was broken down into three objectives: audit selection criteria, barriers to entry and alternatives to the Big Four. The objective regarding main criteria was answered by the questionnaire, the objective about barriers to entry was answered by the interview and the one concerning alternatives was answered by both the questionnaires and the interview. The final aim was divided into the last two objectives, which were answered by both primary methods of data collection.

The researcher used both philosophies, as semi-structured interviews are interpretative in nature and questionnaires are positivistic. The interview involved the researcher interpreting the opinions of the interviewee in the analysis and findings chapter. The findings were open to the researcher's observer bias at this stage. Questionnaires however are more quantifiable in nature by the use of yes/no answers and the Likert rating scale. In the positivist approach the researcher will assume the role of an 'objective analyst'.

### **3.3 Research approach**

There are two possible approaches to research, namely inductive and deductive research. Inductive research is when theory is developed from the observation of empirical reality, thus general inferences are induced from particular instances. On the other hand, deductive research is when a conceptual and theoretical structure is developed and then tested by theoretical observation; therefore particular instances are deduced from general inferences (Collis and Hussey, 2003). As the researcher developed the theory from data collected via questionnaires and an interview the research was therefore inductive.

### **3.4 Research focus**

This research may be classed as descriptive in nature since it involves an analysis of choice in the audit market and the relevant literature. The object of descriptive research is to:

*‘to portray an accurate profile of persons, events or situations.’*

(Robson, 2002, p59)

Descriptive research may be an extension of, or a forerunner to a piece of exploratory research. This research also aimed to find out the future of choice in the audit market and this part of the research was exploratory in nature. Robson (2002, p59) writes that exploratory studies are a valuable means of finding out:

*‘what is happening; to seek new insights; to ask questions and to assess phenomena in a new light.’*

The great advantage of this type of research is that it is flexible and adaptable to change. Therefore the researcher must be willing to change direction due to new data and new insights found (Saunders et al, 2003).

### **3.5 Data collection methods**

The type of methods used depends on the research and the researcher. These methods include case studies, observation, interviews and surveys. This section will focus on the methodologies of questionnaires and interviews, as these are the methods that

were used by the researcher.

### **3.5.1 Questionnaires**

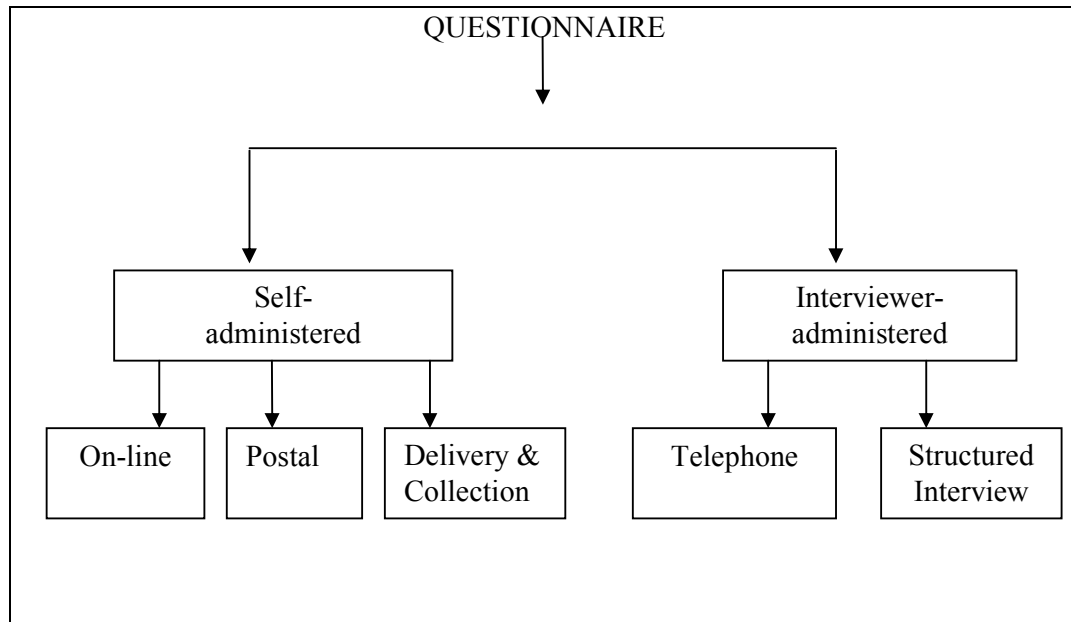
A questionnaire was used in order to investigate the opinions of financial controllers on the topic of choice in the audit market. The questionnaire was adapted to suit the Irish audit market from the survey used by Oxera (2006) in their primary research (Appendix E). The research instrument used had the advantage of having its external validity tested in another country. The questionnaire was pilot tested prior to circulation by a financial controller of a company listed on the Irish Stock Exchange and only a minor change was made.

The researcher posted questionnaires to all listed companies on the Irish Stock Exchange, 71 in total (Appendix G). The researcher addressed the questionnaire to the financial controller of each company. Each financial controller received a questionnaire, a cover letter and a stamped addressed envelope. As the researcher had surveyed the whole population according to Saunders et al (2003) this was a census.

Given the time and financial constraints of the research, the researcher thought that questionnaires were the best option to give the most reliable and general information although they do have their limitations, namely possible low response rates and the respondent's poor knowledge of the topic. However, the researcher tried to overcome these limitations by including prepaid self addressed envelopes and a financial incentive of giving money to charity for every response received by a certain date. The researcher asked the respondent to state their position in the company on the questionnaires.

Collis and Hussey (2003) describe a questionnaire as being a list of carefully structured questions with a view to eliciting reliable responses from the chosen sample. There are various types of questionnaires as shown in Figure 3.1.

**Figure 3.1 Types of questionnaire**



(Saunders et al, 2003, p282)

The choice of questionnaire will be influenced by the factors related to the research aims and objectives, these include: characteristics of the respondent; the importance of reaching a particular person as respondent; the types and number of questions you need to ask and the sample size (Saunders et al, 2003).

Questionnaires are a widely used research tool, however, Easterby-Smith et al (2002) state that they may seem simple to use but their design is by no means simple. Collis and Hussey (2003) outline a number of issues to be considered when using questionnaires, these include: sample size, type of questions, wording of questions, cover letter, method of distribution and tests for validity and reliability.

### **3.5.2 Interviews**

In order to discover the views of non Big Four firms and particularly to find the barriers to entry for non Big Four firms and the future for the audit market, one semi-structured interview was conducted (Appendix D). Both forms of data collection were needed in order to answer all the research objectives.

An interview is a purposeful discussion between two people (Kahn and Cannell,

1957). Interviews may be an effective way of obtaining valid and reliable data that is relevant to the research questions and objectives. There are three types of interview: unstructured, semi-structured and structured.

Unstructured interviews are usually conducted on a one to one basis, the aspiration of which is to get past short answers from which to establish the true inspirations and depth that influence a person's opinion. Sample sizes are small and tend to be time consuming as they are conducted on a one to one basis. Interpretation of findings is also difficult and time consuming as there is no standard on which to base the findings.

Semi-structured interviews involve the researcher having a list of general topics or questions already prepared before the interview. These questions may vary from interview to interview as some questions may be omitted and new questions raised by either the interviewer or interviewee. Semi-structured interviews make interpretation of the findings simpler as there may partly be a standard on which you can base your findings.

Structured interviews as the name suggests is based on a predetermined list of questions. The interviewer reads out the questions and then records the response on a standardized schedule, which usually has pre-coded answers (Saunders et al, 2003). There is little interaction between interviewer and interviewee.

Due to the limited resources of the researcher it was only possible to conduct one semi-structured interview. The interviewee was chosen using systematic random sampling from the top 20 accountancy firms in Ireland as per fee income for the year 2005 (Appendix F). The interview was conducted by telephone in early June 2007 and was approximately thirty minutes in duration. The interview was tape recorded by kind permission of the interviewee (Appendix D).

According to Saunders et al (2003) there is a need to record an interview soon after it is conducted in order to control bias and to produce reliable data for analysis. One method of recording an interview effectively is by using a tape recorder. The advantages and disadvantages of which are outlined in table 3.2.

**Table 3.2 Advantages and disadvantage of tape-recording an interview**

<b>Advantages</b>	<b>Disadvantages</b>
Allows the interviewer to concentrate on questioning and listening	May adversely affect the relationship between interviewee and interviewer
Allows questions formulated in an interview to be accurately recorded for use in later interviews	May inhibit some interviewee responses and reduce reliability
Can re-listen to the interview	Possibility of a technical problem
Provides an accurate and unbiased record	Disruption to discussion when changing tapes
Allows for direct quoting	Time required to transcribe the tape
It is a permanent record which can be used by others	

(Saunders et al, 2003, p264)

### **3.6 Data analysis**

The data collected from the questionnaires was analyzed using SPSS 13.0 for windows. The researcher had prior experience with the software and used the package to construct tables and graphs for the data analysis chapter and appendices. The questionnaire used yes/no questions and rating questions otherwise known as Likert-style rating questions. This type of question asks the respondents how strongly they agree or disagree with a statement or a series of statements (Saunders et al, 2003). The Likert style questions are useful to find out the opinions of the respondents where yes/no questions are not appropriate.

A transcript was produced of the interview conducted and the interviewee was quoted or paraphrased in the text of the data analysis chapter.

### **3.7 Secondary research**

The researcher examined books, academic journals, articles and any other literature relevant to this research. The researcher also obtained a copy of the financial statements of all the companies on the Irish Stock Exchange in order to get contact

details to send the questionnaires to.

### **3.8 Conclusion**

This research was undertaken to investigate choice in the audit market for companies listed on the Irish Stock Exchange. It involved both the positivistic and phenomenological philosophies. The research was both descriptive and exploratory in nature. The research process involved the circulation of 71 surveys and an interview, the findings of which will be discussed in chapter four.



# Chapter 4

## Findings & Analysis

### 4.1 Introduction

The purpose of this chapter is to analyze the results of the research methods adopted for this study. This involved an examination of the survey responses and a review of the transcript from the interview in order to ascertain the interviewee's views on the study. Conclusions will then be discussed in chapter five.

### 4.2 Analysis of survey results and the interview findings

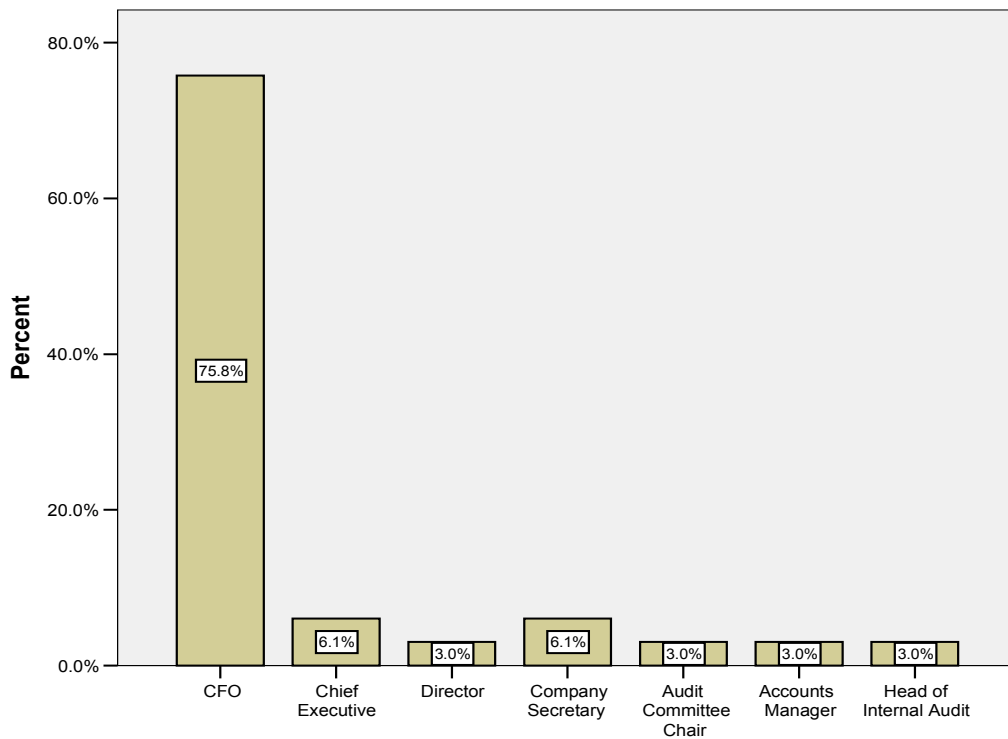
The questionnaire was sent to the 71 companies listed on the Irish Stock Exchange. At the end of the data collection period a total of 33 responses were received, yielding a 46.5 percent response rate (**Table C.1**). **Tables of all the findings from the questionnaires can be found in Appendix C.**

A semi-structured interview was conducted with a partner of a firm outside the top four but within the top 20 in Ireland as per fee income (Appendix F). The purpose of the interview was to find out the barriers to entry for these non Big Four firms and to perhaps find some alternatives to an audit by the Big Four. The interviewee was assured that they would remain anonymous and therefore they are referred to as 'the interviewee'. A transcript of the interview is included in Appendix D.

#### 4.2.1 Demographic results

The majority of respondents were Chief Financial Officers at 75.8 percent; others included the Chief Executive Officer and Company Secretary, as shown in figure 4.1. (**Table C.2**).

**Figure 4.1 Position of Respondents in their company**



Respondents were asked which accountancy firms they have used in the last 12 months for four different categories of work (**Table C.3**). 79.5 percent of the respondents' audit firm was one of the Big Four, compared to 96 percent for Irish companies in a report by Grant Thornton (Shoemith, 2007). Similarly 80.9 percent of the respondents stated that their tax adviser was one of the Big Four. The concentration of audit work performed by the Big Four is high but not as high as in the UK with the Big Four auditing all but one of the FTSE 100 companies (Oxera, 2006).

#### **4.2.2 The main criteria in selecting an auditor**

The most important determinants of choice were: auditor is one of the Big Four at 51.5 percent, quality of staff at 48.5 percent and technical accounting skill, reputation and relationship with auditor all at 36.4 percent (**Table C.5**). Oxera's (2006) respondents' rate reputation and quality of staff as important as well, but they also rate sector specific skills and international coverage as important determinants of

choice. This would show differences in the opinion of the audit committee chairs in the UK and the Chief Financial Officers in the Republic of Ireland. The interviewee stated that auditor selection is based on reputation rather than insistence by anyone; this further reiterates the opinion of the respondents in both surveys. However, when respondents were asked to rate these factors they did not rate auditor is one of the Big Four as the most essential, with only 42.4 percent essential and 21.2 percent not just essential (63.6 percent essential or not just essential in total). 60.6 percent rated technical accounting skill as essential and 15.2 percent as not just essential (75.8 percent in total). This was followed by quality of staff at 51.5 percent essential and 42.4 percent not just essential (93.9 percent in total). Reputation was rated essential by 45.5 percent of respondents and not just essential by 27.3 percent (72.8 percent in total) (**Table C.6**).

The most likely scenario that will make companies change auditor is a breakdown in the working relationship between auditor and management, as 90.9 percent stated this is likely or very likely per table 4.1. The next most likely scenario would be a fault with the quality of the audit opinion as 87.9 percent stated this is likely or very likely. The other three scenarios were rated as being more unlikely.

**Table 4.1 Scenarios to change auditor**

	<b>Very likely</b>	<b>Likely</b>	<b>Neither</b>	<b>Unlikely</b>	<b>Very unlikely</b>	<b>No answer</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
A breakdown in the working relationship between auditor and management	60.6	30.3	6.1	3.0	0.0	0.0
A fault with the quality of the audit opinion	51.5	36.4	6.1	3.0	0.0	3.0
A disagreement with the auditor over the interpretation of accounting standards	3.0	21.2	39.4	15.2	18.2	3.0
A substantial increase in the audit fee (e.g., 15% or above)	18.2	21.2	30.3	24.2	6.1	0.0
Your company's auditor starts auditing one of your company's main competitors	0.0	9.1	18.2	30.3	39.4	3.0

The person whose view is most taken into consideration when choosing an auditor was the Finance Director, as 90.9 percent of respondents stated they were important or very important (**Table C.10**). The Chief Executive and Chairman followed this at 78.8 and 57.6 percent respectively. The survey found that major shareholders are not rated as very important with only 15.2 and 21.2 percent respectively. The interviewee confirmed this finding when they stated that individual investors, other than institutional investors, have limited enough influence over the selection of auditors.

#### **4.2.3 The main barriers to entry for non Big Four firms**

The most significant factor discouraging a change of auditor is the management time required at 33.3 percent very significant and 21.2 percent significant (**Table C.9**). The next significant factor is the possible negative signal to shareholders of changing auditors rated at 18.2 percent very significant and 27.3 percent significant. The least important factor is that the company would have to change the supplier of related services as only 15.1 percent rated it very significant or significant.

In the survey no one company had a set policy of changing auditors after a set period of time (**Table C.7**). This may demonstrate that a policy of changing auditors is not a very important matter for companies to consider.

**Figure 4.2 Frequency of tendering by companies**

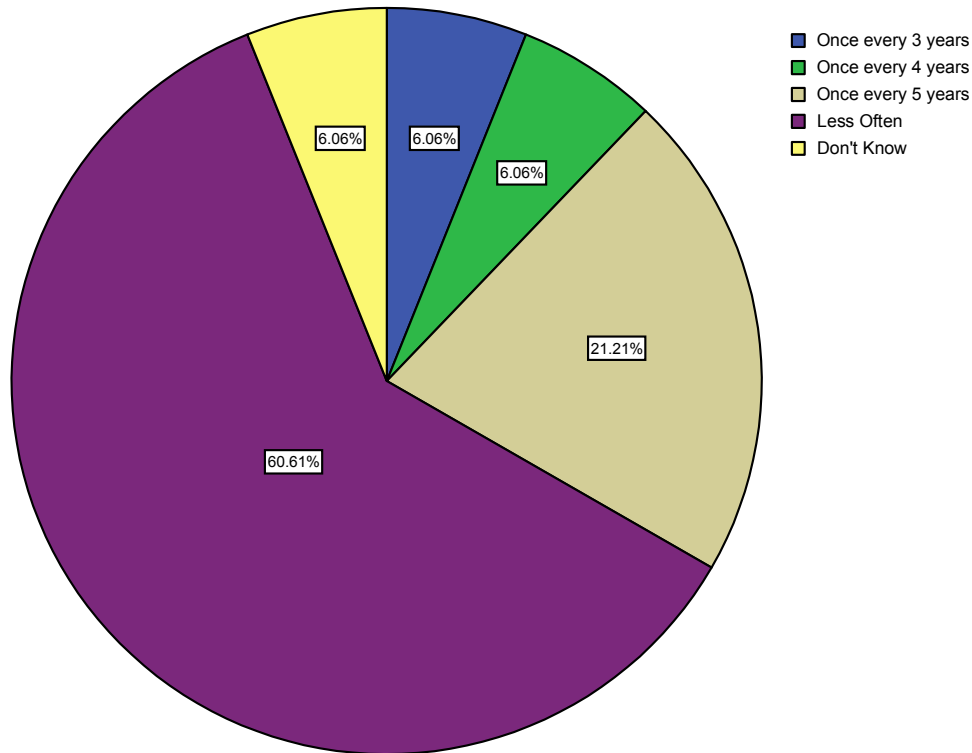


Figure 4.2 demonstrates that 60.6 percent of respondents tender for their audit less often than every five years (**Table C.4**). 21.2 percent of the respondents stated that they tendered for audit once every five years. Ghosh and Lustgarten (2006) and Oxera (2006) both found that switching rates are low for clients of Big Four for audit work. Therefore these results are comparable to other countries like the USA and UK as the GAO (2003b) also found that the majority of respondents were satisfied with their current auditor and the longer they had the same one the happier they were.

The Big Four accountancy firms were known quite well to all respondents with ratings for 'know very well' and 'know well' at 87.9 percent for PricewaterhouseCoopers, 72.7 percent for KPMG, 57.6 percent for Deloitte & Touche and 72.8 percent for Ernst & Young (**Table C.11**). The next four accountancy firms by fee income after the Big Four were only rated around 20 percent well known with only BDO rated at 18.2 percent as known very well. The bottom 12 were not that well known to the respondents with ratings from 12.1 to 68.8 for 'never heard of'.

These findings were also reflected when respondents were asked which firms would be reasonable substitutes for their company. The Big Four were rated as reasonable substitutes as the respondents rated those at 57 percent and higher whilst BDO, Grant Thornton and Mazars only received over 18 percent (**Table C.12**). The other 17 firms were not considered at all as reasonable substitutes with only two firms attaining 3 percent each i.e. only one respondent. These results are comparable to the findings of GAO (2003b) as 88 percent said they would not use non Big Four auditors instead. 63.6 percent of respondents stated that it was fairly unlikely or very unlikely that they would consider a non Big Four firm for their company's audit (**Table C.14**).

The main reason why companies will not use the non Big Four firms was that they believe that there is no credibility with relevant stakeholders in the event of an audit problem at 54.5 percent (**Table C.15**). This finding supports a lot of previous authors like the OFT (2001), Oxera (2006) and McMeeking et al (2006). The second main reason why the respondents will not use the mid-tier firms was reputation. These findings about credibility and reputation were also the opinions of the interviewee, who said:

*'I suppose really there you are talking about lack of experience, in that historically there would not have been involved in that market and also that has led to a perception that anyone else outside the Big Four could not possibly handle a listed audit. But I think thankfully that this is becoming less and less as time goes on.'*

The interviewee stated that it would take time for the misconceptions about the mid-tier firms to be overcome and they stated that it might take one or two of the larger Public Limited Companies to move away from the Big Four to perhaps open up the market. The interviewee noted that there is probably a need as well for the mid-tier firms to make their capabilities known, as they can be proactive about this.

39.4 percent of the respondents stated that they would not consider the non Big Four firms at any price (**Table C.16**). This is more significant than it would first appear, as 30.3 percent of the respondents were not required to answer this question, meaning a higher percentage for those who answered. This view is not shared with Beattie and

Fearnley (1998) as they state the most common reason to change auditors and influence the choice of auditor is fees.

Many of the companies would only really consider BDO (63.6 percent) and Grant Thornton (54.5 percent) as technically capable of performing their company audit. Mazars were only rated at 33.3 percent, Farell Grant Sparks at 27.3 percent and Horwath Bastow Charleton at 21.2 percent. 12.1 percent of respondents thought that none of the firms between the Big Four and top 20 would be technically capable and 21.2 percent of respondents did not know if they were technically capable (**Table C.17**). A similar opinion of poor technical skill by the non Big Four was also found by the GAO (2003a) and Oxera (2006) and McMeeking et al (2006). However, the interviewee believed that:

*‘... going forward, a lot of the mid-tier firms are just as well capable of handling anything that any Big Four can.’*

**Figure 4.3 Significant differences in the quality of an audit provided by the non Big Four firms compared to the Big Four firms**

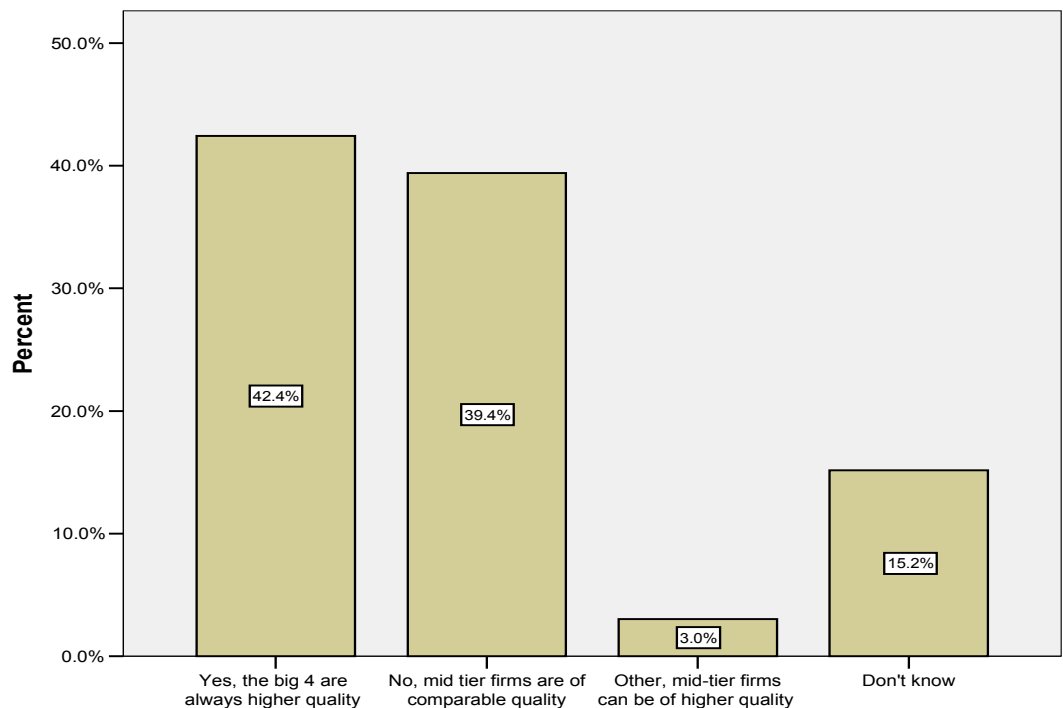


Figure 4.3 illustrates that 42.4 percent of respondents believed that the Big Four are always higher quality, however 39.4 percent stated that mid-tier firms are of comparable quality and another 3 percent stated that mid-tier firms can be of higher quality (**Table C.18**). Therefore, the respondents would appear to be mixed in their views. This does not quite correlate with the findings of table C.14 where the majority of respondents stated that it would be unlikely or very unlikely to consider the non Big Four firms for their company audit.

The interviewee stated that the present unlimited auditors' liability means that mid-tier firms would find it is a huge risk to take on one big client, that could probably bring down a whole practice and if you are outside the Big Four you are not going to have the same level of fee income, therefore, the Institute of Chartered Accountants requirements are a barrier but they are driven by independence rules. This to some extent supports the views of authors like McMeeking (2006) and Koehler (2006) who think that improved auditor liability regulations would allow smaller firms to enter the audit market.

#### **4.2.4 The alternatives to an audit from the Big Four**

The interviewee stated that the alternatives are the mid-tier firms and any of those outside the Big Four. The most important factor or development in making the non Big Four firms a realistic alternative to the Big Four was that they have equivalent technical auditing ability to a Big Four firm, 69.7 percent (**Table C.20**). On the other hand it is interesting that the respondents do not consider many of the present mid-tier firms as technically capable, as already stated under section 4.2.3 (**Table C.17**). The next most important factor would be the international coverage of the mid-tier firm that it is also equivalent to a Big Four firm, 51.5 percent. The third most important factor was that the firm would have a reputation among major shareholders like that of the Big Four.

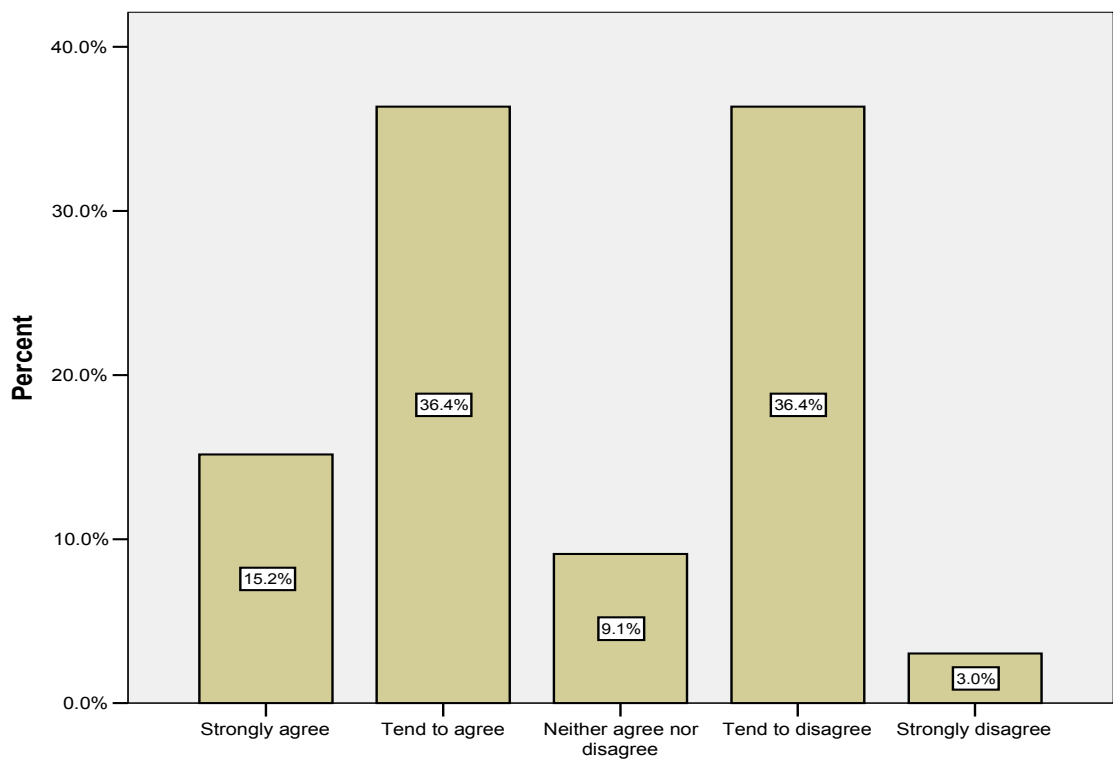
The most serious alternative that the respondents would consider at 72.7 percent was a firm formed from a merger of several mid-tier firms to create an accounting firm of comparable size to the Big Four (**Table C.21**). The second alternative at 24.2 percent was a new entrant to the auditing market engaged purely in audit, with ex-Big Four staff. It must also be noted that 9.1 percent stated that none of these alternatives



would be suitable. 66.7 percent of respondents stated that no factors would exclude another accounting firm from performing their audit work (Table C.22).

The interviewee felt that there is not enough choice in the audit market at present and 39.4 percent of the respondents also agreed as per figure 4.4, but, 51.6 percent of respondents tend to agree or strongly agree that there is enough choice in the audit market (Table C.23).

**Figure 4.4 Choice in the audit market**



#### **4.2.5 Recommendations to increase choice in the audit market**

The interviewee suggested that maybe the government could support rotation of auditors by perhaps legislation; at least companies are then changing auditors every five years for example. This will force them as least to look for alternatives and might draw them outside the Big Four box as part of that process.

The interviewee said that if you look at the accountancy journals you would see the number of firms that are merging now. Maybe they are outside the top 20 but as a merged entity, all of a sudden they could be the top 20 and that is probably showing

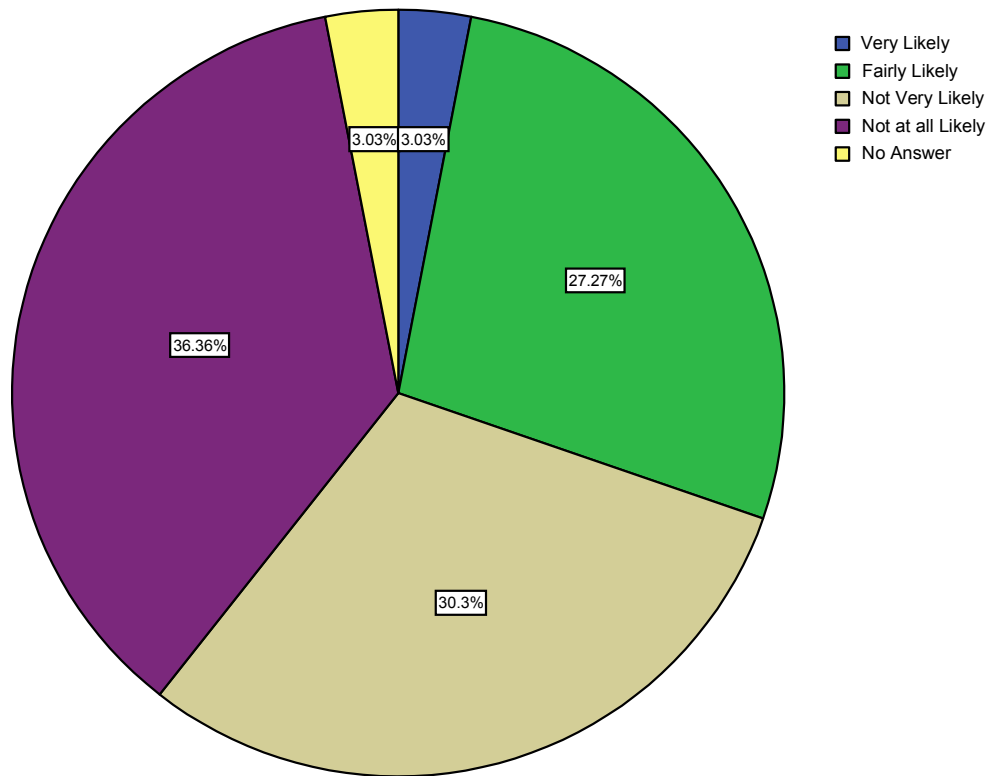
an appetite that if they have merged once they will probably do it again.

The interviewee also felt that mid-tier firms do want to compete with the Big Four and they think that the mid-tier firms would like the Big Four's presence on the consultancy side and their ability to attract new business. The interviewee said that their mid-tier firm and a lot of other firms would be very well placed to service privately owned larger companies. However, audit has become so specialised now that there may not be the same appetite for it.

#### **4.2.6 What would happen if one of the Big Four were to disappear**

Figure 4.5 illustrates that 36.4 percent and 30.3 percent of respondents stated that it is not at all likely or not very likely to use a non Big Four firm if their auditor went out of business (**Table C.19**). When one compares these results with the results of table C.14 where 21.2 and 42.4 percent of respondents state it is unlikely or very unlikely to consider a non Big Four firm for their audit it would appear that respondents are quite insistent upon their views.

**Figure 4.5 The likelihood of considering a non Big Four firm if the respondents audit firm went out of business**



### **4.3 Conclusion**

The chapter analysed and discussed the main findings of both the postal questionnaire and the interview, which were conducted by the author. From this, one can see that the questionnaire and the interview have confirmed and backed up the work of a number of different authors.

# **Chapter 5**

## **Conclusions & Recommendations**

### **5.1 Introduction**

The purpose of this chapter is to summarise the main findings of the research, to draw conclusions, and to make recommendations and suggestions for further areas of research based on the findings of the study. It also examines whether the aims and objectives of this dissertation were met.

A review of the literature into the area of choice in the audit market revealed a lack of information about the choice for companies listed on the Irish Stock Exchange. The review of the literature also developed the research question, which was further refined into research aims and objectives.

In order to answer the research question ‘Is there audit choice for companies listed on the Irish Stock Exchange’ the following aims were derived:

- How has the audit market evolved in the past 20 years?
- Do listed companies have a choice when selecting an auditor?
- What is the future of choice in the audit market?

### **5.2 Overview of the main findings**

The conclusions of this research are broken down under the headings of each research objective as outlined in chapter three. The research objectives were met in a few different ways, namely: a semi-structured interview, questionnaires and an extensive review of the literature.

#### **5.2.1 The causes of audit market concentration**

A review of the literature found that the main causes of audit market concentration were the mergers of accountancy firms during the eighties and nineties, and the collapse of Arthur Anderson in 2002. In the early eighties there was the Big Eight but this has now become the present Big Four (Beattie et al, 2003; GAO, 2003a).

### **5.2.2 The impact of audit market concentration on the market**

McMeeking (2007) and Oxera (2006) both found that higher concentration in the market led to higher audit fees, but Menon and Williams (2001) disagree stating no long term effect on audit fees. Ivancevich and Zardkoohi (2000); Pearson and Trompeter (1994) and Tonge and Wooton (1991) all conclude that the mergers produced more competition in the audit market, though Beattie et al (2003) disagrees with this point. Koehler (2006) found that the Big Four have a virtual monopoly in auditing large companies in nearly every country and this is backed by Oxera (2006) in the UK and Cunningham (2005) in the USA. However, the OFT (2002) in the UK and the GAO (2003a) in the USA conducted preliminary research to whether there is competition problems in the market but nothing was found to be impairing competition in either country.

### **5.2.3 The main criteria in selecting an auditor**

The results of the survey found that the most important determinants of choice were: auditor is one of the Big Four, quality of staff, technical accounting skill, reputation and relationship with auditor. Similarly the interviewee said that selection of auditor was based purely on reputation rather than insistence by anyone. These findings were different to some of Oxera's (2006) most important determinants of choice: international coverage and sector specific skills. However, respondents contradicted themselves when asked to rate these factors and consequently rated technical accounting skill as most essential.

The most likely scenario that would make companies change their auditor was a breakdown in the working relationship between the auditor and management. Therefore one could say that the respondents would change over differences in opinion rather than any mandatory matters.

The opinions of those who work daily for the company are taken more into consideration than the shareholders and audit committee per the respondents. This might not be the best position for the companies to be in, as the auditor audits the work prepared by the Finance Director and Chief Executive. The shareholders were only rated at 36.4 percent important or very important when choosing an auditor. This low rating for shareholders is quite alarming as the shareholders appoint the

auditor at the Annual General Meeting. On the other hand, the interviewee said that institutional investors have some influence over choice. Thus, if one could persuade these investors to use the mid-tier firms, this might open the market up. However, accountancy firms are constrained by independence rules by the APB as to how much of their fee income can come from the one client.

#### **5.2.4 The main barriers to entry for non Big Four firms**

Unfortunately there are many barriers to entry for non Big Four firms into the large audit market, these include: perception bias against the non Big Four, reputation, international coverage, lack of staff and expertise, independence issues and exposure to unlimited liability (GAO, 2003a; London Economics, 2006; Oxera, 2006).

It was interesting to find that not one of the respondents had a set policy of changing auditors. This was also reflected when 60.6 percent of respondents stated that they tender for their audit less often than every five years. One could conclude from this that in general the companies are happy with their current auditor and do not feel that it is necessary to be on the look out for another auditor. Therefore, this would be a barrier to entry for other firms, as companies have no set policy to change auditors after a set period of time and have low tendering rates.

As auditors are selected mainly by their reputation, this research would indicate that the non Big Four firms would need to familiarise themselves with the Finance Directors, Chief Executives, investors and audit committees of large companies. In the questionnaire respondents were asked to rate how well they knew each of the top 20 accountancy firms in Ireland. The Big Four were rated as known well or very well, whereas only a few of the mid-tier firms were rated accordingly. If the respondent had never heard of a mid-tier firm, then they would not consider that firm for their company's audit either. Oxera (2006) found that if the market was to reduce to a Big Three it would still be unlikely for one of the mid-tier firms to try and become a major challenger of the remaining three firms unless perceptions change.

As reputation is such a big determinant for the choice of an auditor it is only reasonable to expect that when respondents were asked who would they consider as

reasonable substitutes for their auditor that many rated the other Big Four firms and only three of the mid-tier firms. This reputation barrier was also suggested by the interviewee and the GAO (2003b). If further research was conducted into this area it would be interesting to discover why the respondents feel that so many of the mid-tier firms would not be a reasonable substitute for their auditor. 63.6 percent of respondents stated that they would be unlikely or very unlikely to use a mid-tier firm for their company's audit. This supports the respondents' poor rating of the mid-tier firms as reasonable substitutes. Credibility with stakeholders was the main reason given for not using the non Big Four firms and reputation was the second reason given.

39.4 percent of respondents said they would not consider mid-tier firms at any price. This is more significant than it would first appear, as 30.3 percent of the respondents were not required to answer this question, meaning a higher percentage for those who answered. One could conclude from this that money is not an issue when it comes to selecting an auditor for these companies. However, Beattie and Fearnley (1998) disagree stating that the most common reason to change auditor is due to audit fees.

In the primary research, technical accounting skill was deemed to be the most important factor involved in the choice of auditor. Yet the perception of the respondents was that many of the mid-tier firms were not technically capable. Therefore, that this may be one of the reasons why many firms were not even considered as a realistic option. The interviewee however, stated that the mid-tier firms were just as well capable to handle the audit of a listed company as the Big Four and they asserted that the perception bias against the mid-tier firms is changing. As for a solution to these misconceptions about the mid-tier firms the interviewee believed it will take time to change the views of people and the mid-tier firms need to make their capabilities known. Kennedy (2007) a freelance journalist for Accountancy Ireland has recently written articles on a few of the different mid-tier firms in Ireland. If more stakeholders in the audit selection decision were to read this type of article, it could encourage them to use a mid-tier firm.

Even though 42.4 percent of respondents believed that the Big Four are always of higher quality, 39.4 percent believed that the mid-tier firms are of comparable quality

and another 3 percent stated that mid-tier firms can be of higher quality. Therefore one could conclude that quality is not a barrier to entry for the mid-tier firms, although one does not know if this includes all mid-tier firms. However as already stated, reputation and technical accounting capabilities are major barriers to entry for most mid-tier firms. Therefore it would appear that the major barriers to entry are the perceptions of the respondents and not the actual quality of the mid-tier firms themselves.

### **5.2.5 The alternatives to an audit from the Big Four and recommendations to increase choice in the audit market.**

Some of the alternatives and recommendations in the literature included joint audit, other sources of audit, specialization in niche markets and mergers of the mid-tier firms. Greater transparency of information was also mentioned by a number of different authors to help improve choice in the audit market (FRC, 2007; Newman, 2007; Financial Times, 2006; McMeeking, 2006).

The interviewee suggested rotation of auditors as a way to increase choice in the audit market. The respondents on the other hand, felt that the most realistic alternative would be a merger of several mid-tier firms to compete with the Big Four firms. Conversely, GAO (2003a); Solomon and Gullapalli (2005) and the London Economics report (2006) said that the merger of several mid-tier firms would still lack the resources needed to compete with the Big Four. In addition the interviewee thought that the mid-tier firms do want to compete with the Big Four, especially in the lucrative consultancy sector, but not necessarily in the audit market as this is not as profitable as non audit services.

At present the interviewee felt that there is not enough choice in the audit market, 39.4 percent of the respondents agreed with the interviewee. However, the majority of respondents at 51.6 percent tend to agree that there is currently enough choice in the audit market.

### **5.2.6 What would happen if one of the Big Four were to disappear**

Jopson (2007) notes how all the Big Four firms have recently had problems with major clients and had to go to the courtrooms. If the market were to be left dominated



by a Big Three this would be worse for choice and competition in the market (Perrin, 2006b). This would also give the Big Three the power to pick and choose which clients they wish to have and the riskier clients (the ones in most need of an audit) will have great difficulty in finding an auditor (Wilson, 2007).

66.7 percent of respondents would still not consider a mid-tier firm if their auditor went out of business. This is worrying; as choice decreases the respondents will still not consider the mid-tier firms.

### **5.3 Recommendations**

One recommendation is to provide more transparent information about all audit firms, not just the Big Four. The literature and the primary research both found that there are perception differences about the technical skill and quality of work that the mid-tier firms are capable of.

The researcher would also recommend that companies would tender their audits more frequently and especially to firms outside the Big Four. This would at least provide a little choice in the short term and would help them decipher who is capable of their company's audit.

To improve choice in the long term for companies, the smaller audit firms will need to be more proactive in their approach to finding new business and retaining their growing clients. Companies have changed to a Big Four auditor when they have become a listed entity on the stock exchange but this is not always necessary, companies could keep their mid-tier firm instead.

Auditors' unlimited liability needs to be rectified by the Irish government, as there is currently an unfair advantage for other European audit firms that can audit here and have a cap on their liability at the same time (Wilson, 2007).

The competition authority in Ireland and other countries will need to keep an eye on competition in the audit market, as there are only four global accountancy firms to choose from for some companies.

#### **5.4 Areas of future research**

As this research was limited by the resources of time and money, further research could be undertaken to include the views of all accountancy firms and all companies that require an audit. This research could be broken down into choice in the audit market for small, medium and large companies. The larger companies, even though they are not listed on any stock exchange, may feel that their choice is also limited.

Research could also be directed at government audit work, as this is very specialised work. This then could help choice in the market place if the government can be seen to be using these firms.

Research could be undertaken in the area of auditors' unlimited liability. Research would be useful in this area to find out if this really does hinder firms here in Ireland or give European firms an advantage by being able to cap their liability. Chapter two reviewed both sides of the argument and it was found to be not that compelling by the OFT (2004).

Research could also be undertaken to discover the differences in fee income by the Big Four and non Big Four firms. It was found in the literature that the Big Four charge a premium (Gonthier-Besacier and Schatt, 2007; Oxera, 2006) for their work and research could be done to discover if this premium is worthwhile.

#### **5.5 Conclusion**

The findings of this research have given a valuable insight into choice in the audit market for companies listed on the Irish Stock Exchange. Companies by a small majority felt that they have enough choice in the market at present, although the interviewee disagreed strongly with this. More work needs to be done in this area to increase choice in the market especially if there would be another repeat like that of Arthur Anderson in 2002.

## Appendix A

### Cover letter for survey

Letterkenny Institute of Technology,  
Port Road,  
Letterkenny,  
Co. Donegal.

30<sup>th</sup> May 2007

Chief Financial Officer,

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Dear Sir/ Madam,

I am currently undertaking a Masters of Accounting at Letterkenny Institute of Technology. As part of my studies I am preparing a dissertation on the choice of auditors for companies that are listed on the Irish Stock Exchange. This is a much debated topic at present and this research should give some indication into how much choice is in Ireland specifically, as there has been no other primary research conducted in this area in Ireland before.

I would be very grateful if you could complete the enclosed questionnaire on audit choice in Ireland. It should take approximately five minutes of your time to complete. I have also enclosed a stamped addressed envelope for your convenience.

Your response is very important and as an incentive to complete the questionnaire **I will donate €5 to charity for every response received by the 18<sup>th</sup> of June 2007.\*\***

**All responses will remain strictly confidential.** You will notice that your name and address do not appear on the questionnaire itself and that there is no identification number.

If you would like a copy of the final version of my dissertation please enclose the name and address of who would like to receive it.

Thank you for your time it is very much appreciated.

Yours sincerely,

\_\_\_\_\_  
Sandra Long

\*\* A donation of €165 was given to Trocaire.

## Appendix B

### Survey: Audit choice for companies listed on the Irish Stock Exchange

Q1 Please state your position within the company \_\_\_\_\_

Q2 Which accounting firm or firms has your company used for audit and other accounting services over the last 12 months? **(Please Tick)**

Accounting firm	Audit	Tax advice	Corporate finance	Consulting/advisory (e.g., IT Consultancy)
PricewaterhouseCoopers				
Deloitte				
KPMG				
Ernst & Young				
BDO Simpson Xavier				
Grant Thornton				
Mazars				
Farrell Grant Sparks				
Horwath Bastow Charleton				
Russell Brennan Keane				
Oliver Freaney				
HLB Nathans				
RSM Robson Rhodes				
OSK				
UHY O'Connor Leddy Holmes				
JPA Brenson Lawlor				
PKF Ryan Glennon				
Ormsby & Rhodes				
Moores Stephens Caplin Meehan				
Baker Tilly O'Hare				
Other (please specify)				
Don't know				
Refuse to answer				

Q3 Approximately how frequently has your company held a tender or similar process to select an auditor in the last ten years? **(Please Tick)**

Every year	
Once every two years	
Once every three years	
Once every four years	
Once every five years	
Less often	
Don't know	

Q4 What are the **3** most important factors influencing your company's choice of auditor?  
**(Please Rate)**

Auditor is one of the Big Four accounting firms	
Technical accounting skill	
Quality of staff	
Reputation	
Sector-specific expertise	
International coverage	
Management preference for specific auditor	
Long-term relationship with current auditor	
Reputation of audit firm with investors	
Reputation of audit firm with corporate broker	
Reputation of audit firm with other external advisers (please name)	
Other (please specify)	

Q5 On a scale of 1 to 5, where 1 is essential and 5 is irrelevant, how do you rate these factors?  
**(Please Rate)**

Auditor is one of the Big Four accounting firms	
Technical accounting skill	
Quality of staff	
Reputation	
Sector-specific expertise	
International coverage	
Management preference for specific auditor	
Long-term relationship with current auditor	
Reputation of audit firm with investors	
Reputation of audit firm with corporate broker	
Reputation of audit firm with other external advisers (please name)	
Other (please specify)	

Q6 Does your company have a policy of changing auditors after a set period (e.g., 3 or 5 years)?  
**(Please Tick)**

Yes, ..... number of years	
No	
Don't know	

Q7 How likely is it that any of the following scenarios would lead you to consider changing your company's current auditor?

**(Please Rate, were 1 is very likely and 5 is very unlikely)**

A breakdown in the working relationship between auditor and management	
A fault with the quality of the audit opinion	
A disagreement with the auditor over the interpretation of accounting standards	
A substantial increase in the audit fee (e.g., 15% or above)	
Your company's auditor starts auditing one of your company's main competitors	

Q8 How significant are the following factors in discouraging you from changing your company's auditor?

**(Please Rate, where 1 is very significant and 5 is not at all significant)**

Management time required	
Audit committee time required	
A new assessment of your company's internal controls required	
Possible negative signal to shareholders of changing auditor	
Company would have to change the supplier of related services such as tax or corporate finance	

Q9 How important are the views of the following stakeholders when choosing an auditor? **(Please Rate, where 1 is very important, 5 not at all important)**

Finance director	
Chief executive	
Chairman	
Major shareholders	
Credit rating agencies	
Your company's lawyers	
Your company's corporate broker	
Your company's bankers	

Q10 For each of the following firms, please indicate how well you feel you know each one? **(Please Rate, were 5 is know very well and 1 is never heard of)**

PricewaterhouseCoopers	
KPMG	
Deloitte & Touche	
Ernst & Young	
BDO Simpson Xavier	
Grant Thornton	
Mazars	
Farrell Grant Sparks	
Horwath Bastow Charleton	
Russell Brennan Keane	
Oliver Freaney	
HLB Nathans	
RSM Robson Rhodes	
OSK	
UHY O'Connor Leddy Holmes	
JPA Brenson Lawlor	
PKF Ryan Glennon	
Ormsby & Rhodes	
Moore Stephens Caplin Meehan	
Baker Tilly O'Hare	

Q11 Thinking about all of the accounting firms you say that you have heard of, which would you consider to be reasonable substitutes for your current auditor, notwithstanding potential conflicts of interest? **(Please Tick)**

PricewaterhouseCoopers	
KPMG	
Deloitte & Touche	
Ernst & Young	
BDO Simpson Xavier	
Grant Thornton	
Mazars	
Farrell Grant Sparks	
Horwath Bastow Charleton	
Russell Brennan Keane	
Oliver Freaney	
HLB Nathans	
RSM Robson Rhodes	
OSK	
UHY O'Connor Leddy Holmes	
JPA Brenson Lawlor	
PKF Ryan Glennon	
Ormsby & Rhodes	
Moore Stephens Caplin Meehan	
Baker Tilly O'Hare	
Other (please specify)	

Don't know	
Refused	

Q12 How many of the firms you mentioned just now are effectively conflicted out from providing audit services to your company? **(Please Tick)**

More than four	
Four	
Three	
Two	
One	
None	

Q13 How likely are you to consider a non Big Four accounting firm for your company's audit? **(Please Tick)**

Very likely	
Fairly likely	
Neither likely nor unlikely	
Fairly unlikely	
Very unlikely	
Don't know	

[If you answer 'neither likely nor unlikely', 'fairly unlikely', or 'very unlikely' at Q13 please answer the next few questions. Others please go to Q16.]

Q14 For what reason(s) would you *not* consider a non Big Four accounting firm for your company's audit?

Shortcomings of the non Big Four firms in terms of... **(Please Tick)**

Technical skill	
Knowledge of the relevant industry	
Reputation or name recognition of the accounting firm	
Credibility with relevant stakeholders in the event of an audit problem	
Price	
International coverage	
Ability to work with the company's management	
Other (please specify)	



Q15 Approximately what size of reduction in the audit fee would persuade you to consider a non Big Four accounting firm for your company's audit? **(Please Tick)**

Up to 10%	
11–20%	
21–30%	
31–40%	
41–50%	
51–60%	
61–70%	
More than 70%	
..... %	
I would not consider a mid-tier firm at any price	

Q16 Outside of the Big Four firms, which accounting firms do you think are technically capable of providing your company's audit? **(Please Tick)**

BDO Simpson Xavier	
Grant Thornton	
Mazars	
Farrell Grant Sparks	
Horwath Bastow Charleton	
Russell Brennan Keane	
Oliver Freaney	
HLB Nathans	
RSM Robson Rhodes	
OSK	
UHY O'Connor Leddy Holmes	
JPA Brenson Lawlor	
PKF Ryan Glennon	
Ormsby & Rhodes	
Moores Stephens Caplin Meehan	
Baker Tilly O'Hare	
Other (please specify)	
None	
Don't know	

Q17 Do you think there would be any significant differences in the quality of the audit provided by non Big Four firms compared with the Big Four? **(Please Tick)**

Yes, the Big Four are always higher quality	
No, mid-tier firm(s) are of comparable quality	
Other, mid-tier firms can be of higher quality	
Don't know	

Q18 How likely would you be to consider a non Big Four accounting firm if your company's audit firm went out of business? **(Please Tick)**

Very likely	
Fairly likely	
Not very likely	
Not at all likely	
Don't know	

Q19 For each of the following statements, please indicate how important you think each factor or development is in making non Big Four accounting firms a realistic alternative to a Big Four firm for the provision of audit services to your company?

**(Please Rate, were 1 is very important and 5 is not at all important)**

A mid-tier firm with:	
– technical auditing ability equivalent to a Big Four firm	
– international coverage equivalent to a Big Four firm	
– reputation among major shareholders equivalent to a Big Four firm	
– reputation among company advisers (such as the corporate broker) equivalent to a Big Four firm	

Q20 Which of the following hypothetical audit firms would represent a serious alternative to a Big Four firm for your company's audit? **(Please Tick)**

A firm formed from a merger of several mid-tier firms to create an accounting firm of comparable size to the Big Four	
A well-established financial services company with a new auditing subsidiary	
A new entrant to the auditing market engaged purely in audit, with ex-Big Four staff	
Other (please specify)	
None	

Q21 Which of the following factors would effectively exclude an accounting firm other than your current auditor from providing audit services to your company?

**(Please Tick)**

It already provides consulting services to my company	
It already provides tax advice to my company	
It already provides corporate finance advice to my company	
It already audits one of my company's main competitors	
None of these	

Q22 To what extent do you agree or disagree with the following statement:

‘Currently, there is enough choice of alternative auditors in the market for my company to choose from.’

(Please Tick)

Strongly agree	
Tend to agree	
Neither agree nor disagree	
Tend to disagree	
Strongly disagree	
Don't know	

Q23 If you have any additional comments on this topic please note them here.

## Appendix C

### Summary of results from survey

**Table C.1 Response rates**

	<b>Responses received</b>	<b>Percentage of total</b>
Response received	33	46.5
Responses not received	38	53.5
Total sent	71	100.0

**Table C.2 Position of respondents**

Source: Q1 Please state your position within the company?

	<b>Responses received</b>	<b>Percentage of total</b>
CFO	25	75.8
CEO	2	6.1
Director	1	3.0
Company Secretary	2	6.1
Audit Committee Chair	1	3.0
Accounts Manager	1	3.0
Head of Internal Audit	1	3.0
Total	33	100.0

**Table C.3 Accountancy firms used in the last twelve months**

Source: Q2 Which accounting firm or firms has your company used for audit and other accounting services over the last 12 months?

Note: Respondents answered more than one firm for certain services

	<b>Audit firm</b>	<b>Tax advice</b>	<b>Corporate finance</b>	<b>Consulting/ Advisory</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
PricewaterhouseCoopers	23.1	29.8	12.8	20.5
Deloitte	10.3	8.5	7.7	13.6
KPMG	28.2	27.7	12.8	4.5
Ernst & Young	17.9	14.9	2.6	4.5
BDO Simpson Xavier	5.1	4.3	5.1	4.5
Grant Thornton	2.6	2.1	2.6	2.3
Mazars			2.6	
Farrell Grant Sparks				4.5
Horwath Bastow Charleton	2.6	2.1		
Russell Brennan Keane				2.3
Oliver Freaney	2.6	2.1		
HLB Nathans				
RSM Robson Rhodes	2.6	2.1		
OSK				
UHY O'Connor Leddy Holmes				
JPA Brenson Lawlor				2.3
PKF Ryan Glennon				2.3
Ormsby & Rhodes				
Moores Stephens Caplin Meehan				
Baker Tilly O'Hare				
Other (please specify)	5.1	2.1	5.1	2.3
Don't know				
No Answer		4.3	48.7	36.4
Total	100.0	100.0	100.0	100.0

**Table C.4 Frequency of tendering by companies**

Source: Q3 Approximately how frequently has your company held a tender or similar process to select an auditor in the last ten years?

	<b>Responses received</b>	<b>Percentage of total</b>
Once every 3 years	2	6.1
Once every 4 years	2	6.1
Once every 5 years	7	21.2
Less Often	20	60.6
Don't Know	2	6.1
Total	33	100.0

**Table C.5 Factors influencing the companies' choice of auditor**

Source: Q4 What are the 3 most important factors influencing your company's choice of auditor?

	<b>Yes</b>	<b>No</b>
	<b>%</b>	<b>%</b>
Auditor is one of the Big 4 accounting firms	51.5	48.5
Technical accounting skill	36.4	63.6
Quality of staff	48.5	51.5
Reputation	36.4	63.6
Sector-specific expertise	15.2	84.8
International coverage	21.2	78.8
Management preference for specific auditor	12.1	87.9
Long-term relationship with current auditor	36.4	63.6
Reputation of audit firm with investors	18.2	81.8
Reputation of audit firm with corporate broker	9.1	90.9
Reputation of audit firm with other external advisers	0.0	100.00
Other – price/ fees	6.1	93.9

**Table C.6 Rating of factors influencing the companies' choice of auditor**

Source: Q5 On a scale of 1 to 5, where 1 is essential and 5 is irrelevant, how do you rate these factors?

	<b>Essential</b>	<b>Not just essential</b>	<b>Neither</b>	<b>Not relevant</b>	<b>Not at all relevant</b>	<b>No answer</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Auditor is one of the Big 4 accounting firms	42.4	21.2	9.1	9.1	3.0	15.2
Technical accounting skill	60.6	15.2	12.1	6.1	0.0	6.1
Quality of staff	51.5	42.4	3.0	0.0	0.0	3.0
Reputation	45.5	27.3	9.1	9.1	0.0	9.1
Sector-specific expertise	15.2	24.2	39.4	3.0	3.0	15.2
International coverage	33.3	27.3	12.1	9.1	3.0	15.2
Management preference for specific auditor	9.1	3.0	30.3	15.2	30.3	12.1
Long-term relationship with current auditor	9.1	15.2	30.3	18.2	21.2	6.1
Reputation of audit firm with investors	21.2	39.4	12.1	6.1	9.1	12.1
Reputation of audit firm with corporate broker	12.1	21.2	9.1	18.2	18.2	21.2
Reputation of audit firm with other external advisers	3.0	15.2	15.2	15.2	24.2	27.3
Other – price/ fees	6.1	3.0	0.0	0.0	0.0	90.9

**Table C.7 Policy of changing auditors after a set period of time.**

Source: Q6 Does your company have a policy of changing auditors after a set period (e.g., 3 or 5 years)?

	<b>Responses</b>	<b>Percentage of total</b>
No	33	100.0

**Table C.8 Scenarios to change auditor**

Source: Q7 How likely is it that any of the following scenarios would lead you to consider changing your company's current auditor?

	<b>Very likely</b>	<b>Likely</b>	<b>Neither</b>	<b>Unlikely</b>	<b>Very unlikely</b>	<b>No answer</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
A breakdown in the working relationship between auditor and management	60.6	30.3	6.1	3.0	0.0	0.0
A fault with the quality of the audit opinion	51.5	36.4	6.1	3.0	0.0	3.0
A disagreement with the auditor over the interpretation of accounting standards	3.0	21.2	39.4	15.2	18.2	3.0
A substantial increase in the audit fee (e.g., 15% or above)	18.2	21.2	30.3	24.2	6.1	0.0
Your company's auditor starts auditing one of your company's main competitors	0.0	9.1	18.2	30.3	39.4	3.0

**Table C.9 Factors discouraging change of auditor**

Source: Q8 How significant are the following factors in discouraging you from changing your company's auditor?

	<b>Very significant</b>	<b>Significant</b>	<b>Neither</b>	<b>Insignificant</b>	<b>Not at all significant</b>	<b>No answer</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Management time required	33.3	21.2	24.2	12.1	9.1	0.0
Audit committee time required	6.1	12.1	33.3	27.3	21.2	0.0
A new assessment of your company's internal controls required	9.1	21.2	30.3	21.2	15.2	3.0
Possible negative signal to shareholders of changing auditor	18.2	27.3	15.2	21.2	15.2	3.0
Company would have to change the supplier of related services such as tax or corporate finance	3.0	12.1	15.2	39.4	27.3	3.0

**Table C.10 Whose view is important in choosing an auditor**

Source: Q9 How important are the views of the following stakeholders when choosing an auditor?

	<b>Very important</b>	<b>Important</b>	<b>Neither</b>	<b>Not important</b>	<b>Not at all important</b>	<b>No answer</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Finance director	66.7	24.2	6.1	3.0	0.0	0.0
Chief executive	45.5	33.3	18.2	3.0	0.0	0.0
Chairman	42.4	15.2	33.3	9.1	0.0	0.0
Major shareholders	15.2	21.2	21.2	27.3	15.2	0.0
Credit rating agencies	0.0	15.2	18.2	30.3	24.2	12.1
Your company's lawyers	0.0	3.0	18.2	24.2	45.5	9.1
Your company's corporate broker	6.1	3.0	33.3	27.3	24.2	6.1
Your company's	0.0	12.1	21.2	30.3	27.3	9.1



bankers						
Audit committee	2.9	0.0	0.0	0.0	0.0	97.1

**Table C.11 How well the respondents know the accountancy firms**

Source: Q10 For each of the following firms, please indicate how well you feel you know each one?

	<b>Never heard of</b>	<b>Don't know well</b>	<b>Neither</b>	<b>Know well</b>	<b>Know very well</b>	<b>No answer</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
PricewaterhouseCoopers	0.0	0.0	12.1	21.2	66.7	0.0
KPMG	3.0	3.0	21.2	12.1	60.6	0.0
Deloitte & Touche	0.0	12.1	24.2	21.2	36.4	6.1
Ernst & Young	0.0	3.0	15.2	27.3	45.5	9.1
BDO Simpson Xavier	0.0	27.3	24.2	21.2	18.2	9.1
Grant Thornton	0.0	42.4	18.2	21.2	9.1	9.1
Mazars	3.0	48.5	18.2	18.2	3.0	9.1
Farrell Grant Sparks	15.2	36.4	18.2	18.2	0.0	12.1
Horwath Bastow Charleton	18.2	39.4	18.2	9.1	3.0	12.1
Russell Brennan Keane	42.4	36.4	0.0	3.0	6.1	12.1
Oliver Freaney	12.1	57.6	9.1	6.1	3.0	12.1
HLB Nathans	45.5	33.3	3.0	3.0	6.1	9.1
RSM Robson Rhodes	30.3	45.5	3.0	6.1	3.0	12.1
OSK	48.5	27.3	6.1	3.0	3.0	12.1
UHY O'Connor Leddy Holmes	45.5	30.3	3.0	3.0	3.0	15.1
JPA Brenson Lawlor	68.8	9.4	3.1	3.1	3.1	12.5
PKF Ryan Glennon	51.5	24.2	9.1	3.0	3.0	9.1
Ormsby & Rhodes	45.5	36.4	3.0	3.0	3.0	9.1
Moore Stephens Caplin Meehan	42.4	33.3	6.1	6.1	0.0	12.1
Baker Tilly O'Hare	36.4	36.4	9.1	6.1	0.0	12.1

**Table C.12 Reasonable substitutes**

Source: Q11 Thinking about all of the accounting firms you say that you have heard of, which would you consider to be reasonable substitutes for your current auditor, notwithstanding potential conflicts of interest?

	<b>Yes</b>	<b>No</b>
	<b>%</b>	<b>%</b>
PricewaterhouseCoopers	75.8	24.2
KPMG	57.6	42.4
Deloitte & Touche	75.8	24.2
Ernst & Young	63.6	36.4
BDO Simpson Xavier	24.2	75.8
Grant Thornton	18.2	81.8
Mazars	18.2	81.8
Farrell Grant Sparks	0.0	100.0
Horwath Bastow Charleton	3.0	97.0
Russell Brennan Keane	3.0	97.0
Oliver Freaney	0.0	100.0
HLB Nathans	0.0	100.0
RSM Robson Rhodes	0.0	100.0
OSK	0.0	100.0
UHY O'Connor Leddy Holmes	0.0	100.0
JPA Brenson Lawlor	0.0	100.0
PKF Ryan Glennon	0.0	100.0
Ormsby & Rhodes	0.0	100.0
Moores Stephens Caplin Meehan	0.0	100.0
Baker Tilly O'Hare	0.0	100.0

**Table C.13 Firms conflicted out from providing audit services**

Source: Q12 How many of the firms you mentioned just now are effectively conflicted out from providing audit services to your company?

	<b>Responses</b>	<b>Percentage of total</b>
Three	2	6.1
Two	2	6.1
One	5	15.2
None	24	72.7
Total	33	100.0

**Table C.14 Likelihood of considering a non Big Four firm**

Source: Q13 How likely are you to consider a non Big Four accounting firm for your company's audit?

<b>Very likely</b>	<b>Likely</b>	<b>Neither</b>	<b>Unlikely</b>	<b>Very unlikely</b>	<b>Don't know</b>
<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
12.1	18.2	3.0	21.2	42.4	3.0

**Table C.15 Reasons why companies will not use non Big Four firms**

Source: Q14 For what reason(s) would you *not* consider a non Big Four accounting firm for your company's audit?

	<b>Yes</b>	<b>No</b>	<b>No answer</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Technical skill	30.3	42.4	27.3
Knowledge of the relevant industry	24.2	48.5	27.3
Reputation or name recognition of the accounting firm	48.5	24.2	27.3
Credibility with relevant stakeholders in the event of an audit problem	54.5	18.2	27.3
Price	3.0	69.7	27.3
International coverage	36.4	36.4	27.3
Ability to work with the company's management	3.0	69.7	27.3
Other (please specify)	0.0	72.7	27.3

**Table C.16 Size of fee reduction to persuade you to consider a non Big Four firm.**

Source: Q15 Approximately what size of reduction in the audit fee would persuade you to consider a non Big Four accounting firm for your company's audit?

<b>11-20%</b>	<b>21-30%</b>	<b>31-40%</b>	<b>51-60%</b>	<b>Would not consider at any price</b>	<b>No answer</b>
<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
12.1	9.1	6.1	3.0	39.4	30.3

**Table C.17 Firms technically capable of the companies' audit**

Source: Q16 Outside of the Big Four firms, which accounting firms do you think are technically capable of providing your company's audit?

	<b>Yes</b>	<b>No</b>
	<b>%</b>	<b>%</b>
BDO Simpson Xavier	63.6	36.4
Grant Thornton	54.5	45.5
Mazars	33.3	66.7
Farrell Grant Sparks	27.3	72.7
Horwath Bastow Charleton	21.2	78.8
Russell Brennan Keane	3.0	97.0
Oliver Freaney	3.0	97.0
HLB Nathans	0.0	100.0
RSM Robson Rhodes	6.1	93.9
OSK	0.0	100.0
UHY O'Connor Leddy Holmes	0.0	100.0
JPA Brenson Lawlor	0.0	100.0
PKF Ryan Glennon	0.0	100.0
Ormsby & Rhodes	0.0	100.0
Moores Stephens Caplin Meehan	0.0	100.0
Baker Tilly O'Hare	6.1	93.9
Other (please specify)	0.0	100.0
None	12.1	87.9
Don't know	21.2	78.8

**Table C.18 Differences in the quality of the audit provided by the non Big Four firms**

Source: Q17 Do you think there would be any significant differences in the quality of the audit provided by non Big Four firms compared with the Big Four?

	<b>Responses received</b>	<b>Percentage of total</b>
Yes, the big 4 are always higher quality	14	42.4
No, mid tier firms are of comparable quality	13	39.4
Other, mid tier firms can be of higher quality	1	3.0
Don't know	5	15.2
Total	33	100.0

**Table C.19 Likely to consider a non Big Four firm if your audit firm went out of business**

Source: Q18 How likely would you be to consider a non Big Four accounting firm if your company's audit firm went out of business?

	Responses Received	Percentage of total
Very likely	1	3.0
Fairly likely	9	27.3
Not very likely	10	30.3
Not at all likely	12	36.4
No answer	1	3.0
Total	33	100.0

**Table C.20 Rating of how important each factor or development is in making non Big Four accounting firms a realistic alternative to a Big Four firm for the provision of audit services to the company**

Source: Q19 For each of the following statements, please indicate how important you think each factor or development is in making non Big Four accounting firms a realistic alternative to a Big Four firm for the provision of audit services to your company?

	Very important	Important	Neither	Not important	Not at all important	No answer
	%	%	%	%	%	%
A mid-tier firm with:						
– technical auditing ability equivalent to a Big Four firm	69.7	24.2	3.0	0.0	0.0	3.0
– international coverage equivalent to a Big Four firm	51.5	27.3	9.1	9.1	0.0	3.0
– reputation among major shareholders equivalent to a Big Four firm	48.5	30.3	9.1	6.1	0.0	6.1
– reputation among company advisers (such as the corporate broker) equivalent to a Big Four firm	18.2	36.4	21.2	12.1	3.0	9.1

**Table C.21 Serious alternative to a Big Four firm**

Source: Q20 Which of the following hypothetical audit firms would represent a serious alternative to a Big Four firm for your company's audit?

	Yes	No
	%	%
A firm formed from a merger of several mid-tier firms to create an accounting firm of comparable size to the Big Four	72.7	27.3
A well-established financial services company with a new auditing subsidiary	3.0	97.0
A new entrant to the auditing market engaged purely in audit, with ex-Big Four staff	24.2	75.8
Other (please specify)	0.0	100.0
None	9.1	90.9

**Table C.22 Factors that would exclude an accounting firm other than your current auditor from providing audit services to your company**

Source: Q21 Which of the following factors would effectively exclude an accounting firm other than your current auditor from providing audit services to your company?

	Respondents	Percentage of total
It already provides consulting services to my company	4	12.1
It already provides tax advices to my company	1	3.0
It already audits one of my company's main competitors'	5	15.2
None of these	22	66.7
No Answer	1	3.0
Total	33	100.0

**Table C.23 Choice in the market**

Q22 To what extent do you agree or disagree with the following statement:

'Currently, there is enough choice of alternative auditors in the market for my company to choose from.'

	Respondents	Percentage of total
Strongly agree	5	15.2
Tend to agree	12	36.4
Neither agree nor disagree	3	9.1
Tend to disagree	12	36.4
Strongly disagree	1	3.0
Total	33	100.0

## Appendix D

### Transcript from interview with mid-tier firm

**1. What are the main barriers to entry for the non-Big Four firms?**

I suppose really there you are talking about lack of experience, in that historically there would not have been involved in that market and also that has let to a perception that anyone else outside the Big Four could not possibly handle a listed audit. But I think thankfully that this is becoming less and less as time goes on.

**2. Do you think that investors really influence the choice of auditors or are they used as a scapegoat by the companies for justification of their choice of auditor?**

I would imagine that really individual investors other than institutional investors have limited enough influence.

**3. To what extent are audits selected on the advice of advisors for audit services in your opinion?**

I would say that advisors probably have a role to play in terms of selection of auditors, but purely it is based on reputation rather than insistence by anyone. Advisors have some influence.

**4. What does your firm do in order to influence corporate advisors (e.g. lawyers, bankers) to use your services instead of the Big Four?**

I suppose there is our marketing effort there, we are continually in contact with all of them in terms of our existing client base and it gives us the opportunity to see our own capabilities first hand, so often that is the best win for us.

**5. Do you think that there are misconceptions about the differences between the Big Four and mid tier firms?**

Absolutely, yes. I think certainly in the past those misconceptions had some basis. But I think going forward a lot of the mid-tier firms are just as well capable of handling anything that any Big Four can.

**6. How do you think these misconceptions could be overcome?**

I guess it is going to be a slow burner, I think it is just going to take time. It may take one or two of the larger Public Limited Companies to move away from the Big Four and all of a sudden I think this will probably open up the market. Now I think there is probably a need as well for the mid-tier firms to, for example BDO I know are quite good at putting themselves out there and making their capabilities known, they definitely can be proactive on that, rather than necessarily just waiting on something to happen. It will take time none the less.

**7. What alternatives could there be to the Big Four for audit services in your opinion for listed companies?**

I guess the alternatives are the mid-tier firms and any of those outside the Big Four, any firm I would imagine that has any kind of influence on audit in the top fifteen would be able to handle any listed company audit.

**8. Do you think that the present unlimited auditors' liability regime hinders auditors in trying to gain bigger clients?**

Absolutely, yes. I think that is probably one of the bigger barriers as well going back to your first question there in the terms of risk. The risk for a mid-tier firm in the top fifteen would maybe have annual fees of ten or twelve million something in that region. They would find it is a huge risk to take on one client of that size that could probably bring down a whole practice and a whole life times work. So certainly in terms of the risk profile it might just be too much for one smaller firm to bear and especially if that is not necessarily a world wide firm. As these listed companies tend to be the bigger type audits and so therefore there are restrictions on the amount of fee income you can get from any one client. Obviously if you are taking on one of these and if you are outside the Big Four you are not going to have the same level of fee income. The Institute of Chartered Accountants requirements are a barrier but they are driven by independence.

**9. Do you think that the very limited professional indemnity insurance hinders auditors in trying to gain bigger clients?**

Absolutely for the same reasons as in eight above.

**10. Do you think that the government is doing enough already to increase choice in the audit market in the Republic of Ireland?**

No, I am not aware that are doing anything at the moment.

**11. What do you think the government could do in the future to increase choice in the audit market?**

Maybe the government could support rotation of auditors, perhaps by legislation saying you need to rotate your auditor every five years. At least companies are then changing auditors every five years so it will force them as least to look for alternatives, and this might draw them outside the Big Four box as part of that process. Certainly there would be disadvantages but in terms of the question, rotation would certainly help in bringing the smaller firms more into play. It does none the less give rise to problems and would likely lead to increased audit costs.

**12. Do you think that non-Big Four firms would have a better chance of market entry if there were only a Big Three?**

That is an interesting question but probably not though.

**13. Who would fund the expansion of mid tier firms?**

I suppose they would likely be self-financing, a lot of the growth tends to be organic based on the back of previous growth. I suppose the owners would fund that. You expect that the mid-tier firms with the young, hungrier partner profile are more likely to enter that market rather than ones that maybe are not. I think that in that groove of between the top four and the top twenty firms you will probably see a lot of change. In that unless firms have a fairly young partner profile they are more likely to stagnant because as the partners get older their requirements and their plans would be significantly different.



**14. Do you think that non-Big Four firms would consider merging to act as competition to the Big Four?**

Absolutely, and many have already. I think if you look at what is going on in the industry at the moment there is a huge amount of consolidation. I think the mid-tier firms have started to merge, as there is a realisation that there is a need to do this. If you look at the accountancy journals you will see the number of firms that are merging now maybe they are outside the top twenty but as a merged entity all of a sudden they are within the top twenty and that is probably showing an appetite that if they have merged once they will probably do it again.

**15. What do you think the problems would be in trying to merge the non-Big Four firms?**

The core value and the style of that firm. A lot of the mid-tier firms are around a long time and they have their own way of doing things and their own approach to things. No different to some of the mergers that you see in the Big Four there recently. There are going to be differences in approach, difference in style, differences in personality even that will make it difficult. Some firms are set in their ways.

**16. Do the mid-tier firms really want to compete with the Big Four?**

I think they do. I think they would like their presence on the Consultancy side and their ability to attract new business on the Consultancy side. Audit has become so specialised now that there may not be the same appetite for audit. The non-audit services are more profitable and audit is not a profitable business.

**17. Who would be your target clients that are already audited by the Big Four?**

Probably some of the privately owned larger companies would certainly be a target. We and a lot of other firms would be very well placed, to service those clients.

**18. Does your firm do any marketing to attract new clients (i.e. companies listed on the Irish Stock Exchange) for audit services, and if so what type, and does it work for your firm?**

Not specifically listed on the Irish Stock Exchange.

**19. Does your firm do any marketing for the audit services of subsidiaries of U.S. firms?**

Limited. Generally the subsidiary company auditor is the same as the parent company auditor for the bigger companies; the Irish subsidiary tends to be part of the worldwide audit. But certainly with some of the smaller ones that may be the non listed U.S. ones, they may not necessarily have a Big Four accountancy firm in the U.S. which probably would suggest that they may not have any allegiances to any one here in Ireland.

**20. Different auditors can be used for group audit and subsidiary audits. What is your view on the proposed 8<sup>th</sup> company law directive that 'group auditors would take responsibility for an audit'?**

They probably do to a certain extent anyway, in that the numbers get consolidated up at group level and it is the parent auditor that signs off on those, so they probably do already. Probably not a huge change to be honest.

**21. Is this your personal view or is this the view of your firm?**

Personal.

**22. Do you think that there is enough choice in the audit market for companies listed on the Irish Stock Exchange at present?**

I do not think there is actually and certainly the perception is that there is not within any contact that we have had with listed companies so I think if the perception is no then the reality is no as well.

## Appendix E

### Oxera's Audit committee chairs survey

#### BACKGROUND QUESTIONS

**Q1 Can you tell me which accounting firm or firms your company has used for audit and other accounting services over the last 12 months?**

**[Prompt for audit, tax advice, corporate finance, consulting/advisory. Tick as appropriate.]**

Accounting firm	Audit	Tax advice	Corporate finance	Consulting/advisory (e.g., IT Consultancy)
PricewaterhouseCoopers				
Deloitte				
KPMG				
Ernst & Young				
Grant Thornton				
BDO				
Baker Tilly				
Smith & Williamson				
PKF				
Tenon Group				
RSM Robson Rhodes				
Moore Stephens				
Mazars				
Other (please specify)				
Don't know				
Refused				

**Q2 Approximately how frequently has your company held a tender or similar process to select an auditor in the last ten years? [Read out and code. Single code only.]**

- Every year
- Once every two years
- Once every three years
- Once every four years
- Once every five years
- Less often
- Don't know

## DETERMINANTS OF THE CHOICE OF AUDITOR

**Q3 What are the three most important factors influencing your company's choice of auditor? [Unprompted. Multicode up to three.]**

- Auditor is one of the Big Four accounting firms
- Technical accounting skill
- Sector-specific expertise
- International coverage
- Management preference for specific auditor
- Long-term relationship with current auditor
- Reputation of audit firm with investors
- Reputation of audit firm with corporate broker
- Reputation of audit firm with other external advisers (please name)
- Other (please specify)

**Q4 On a scale of 1 to 5, where 5 is essential and 1 is irrelevant, how do you rate these three factors? And how would you rate the following additional factors? [Read out the three items mentioned at Q3, followed by the remaining factors. Ask respondent to rate on a scale of 1–5.]**

Auditor is one of the Big Four accounting firms  
Technical accounting skill  
Sector-specific expertise  
International coverage  
Management preference for specific auditor  
Long-term relationship with current auditor  
Reputation of audit firm with investors  
Reputation of audit firm with corporate broker  
Reputation of audit firm with other external advisers (please name)  
Other (please specify)

**Q5 Does your company have a policy of changing auditors after a set period (e.g., 3 or 5 years)?**

- Yes, ..... number of years
- No
- Don't know

**Q6 How likely is it that any of the following scenarios would lead you to consider changing your company's current auditor?**

**[Read out. Rotate start. Single code only for each statement. Scale: very likely, fairly likely, neither likely nor unlikely, fairly unlikely, very unlikely, and don't know. ]**

- A breakdown in the working relationship between auditor and management
- A fault with the quality of the audit opinion
- A disagreement with the auditor over the interpretation of accounting standards

- A substantial increase in the audit fee (e.g., 15% or above)
- Your company’s auditor starts auditing one of your company’s main competitors

**Q7 How significant are the following factors in discouraging you from changing your company’s auditor?**

**[Read out all items and rate on a scale of 1 to 5, where 1 is not at all significant and 5 is very significant.]**

- Management time required
- Audit committee time required
- A new assessment of your company’s internal controls required
- Possible negative signal to shareholders of changing auditor
- Company would have to change the supplier of related services such as tax or corporate finance

**Q8 How important are the views of the following stakeholders when choosing an auditor?**

**[Rate on a scale of 1–5, where 5 is very important, 1 not at all important. Single code for each stakeholder.]**

- Finance director
- Chief executive
- Chairman
- Major shareholders
- Credit rating agencies
- Your company’s lawyers
- Your company’s corporate broker
- Your company’s bankers

Competition between accounting firms in audit services

‘Audit firms are commonly divided into the Big Four firms (PricewaterhouseCoopers, Deloitte, KPMG, Ernst & Young) and mid-tier firms such as Grant Thornton, BDO Stoy Hayward, and Baker Tilly. The following questions are about the dimensions of your choice between a Big Four firm and a mid-tier firm.’ [Ask all.]

**Q9 For each of the following firms I read out, please tell me how well you feel you know each one. [Single code only for each company. Read out and rotate start. Scale: know very well/know a fair amount/know a little/heard of but know nothing about/never heard of/don’t know.]**

- PricewaterhouseCoopers
- Deloitte
- KPMG
- Ernst & Young
- Grant Thornton
- BDO
- Baker Tilly
- Smith & Williamson
- PKF
- Tenon Group

- RSM Robson Rhodes
  - Moore Stephens
  - Mazars
- [Ask all.]

**Q10 Thinking about all of the accounting firms you say that you have heard of, which would you consider to be reasonable substitutes for your current auditor, notwithstanding potential conflicts of interest? [Unprompted, please tick off response against list below.]**

- PricewaterhouseCoopers
- Deloitte
- KPMG
- Ernst & Young
- Grant Thornton
- BDO
- Baker Tilly
- Smith & Williamson
- PKF
- Tenon Group
- RSM Robson Rhodes
- Moore Stephens
- Mazars
- Other (please specify)
- Don't know
- Refused

**Q11 How many of the firms you mentioned just now are effectively conflicted out from providing audit services to your company?**

- More than four
- Four
- Three
- Two
- One
- None

**Q12 How likely are you to consider a mid-tier accounting firm for your company's audit?**

- Very likely
- Fairly likely
- Neither likely nor unlikely
- Fairly unlikely
- Very unlikely
- Don't know

[Ask all who are 'neither likely nor unlikely', 'fairly unlikely', or 'very unlikely' at Q12. Others go to Q15.]

**Q13 For what reason(s) would you not consider a mid-tier accounting firm for your company's audit? [Unprompted.]**

Shortcomings of the mid-tier firms in terms of...

- technical skill
- knowledge of the relevant industry
- reputation or name recognition of the accounting firm
- credibility with relevant stakeholders in the event of an audit problem
- price
- international coverage
- ability to work with the company's management
- other (please specify)

**Q14 Approximately what size of reduction in the audit fee would persuade you to consider a mid-tier accounting firm for your company's audit? [Prompted.]**

- Up to 10%
  - 11-20%
  - 21-30%
  - 31-40%
  - 41-50%
  - 51-60%
  - 61-70%
  - More than 70%
  - ..... %
  - I would not consider a mid-tier firm at any price
- [Ask all.]

**Q15 Outside of the Big Four firms, which accounting firms do you think are technically capable of providing your company's audit?**

- Grant Thornton
  - BDO
  - Baker Tilly
  - Smith & Williamson
  - PKF
  - Tenon Group
  - RSM Robson Rhodes
  - Moore Stephens
  - Mazars
  - Other (please specify)
  - None
  - Don't know
- [Ask all.]

**Q16 Do you think there would be any significant differences in the quality of the audit provided by mid tier firms compared with the Big Four? [Prompt, read out.]**

- Yes, the Big Four are always higher quality

- No, mid-tier firm(s) are of comparable quality
- Other, mid-tier firms can be of higher quality
- Don't know

## MARKET DYNAMICS

[Ask all who code A–D at Q1.]

**Q17 How likely would you be to consider a mid-tier accounting firm if:  
[Prompt for options A and B]**

- (A) your company's audit firm went out of business**
- (B) another Big Four firm went out of business**

- Very likely
- Fairly likely
- Not very likely
- Not at all likely
- Don't know

**Q18 For each of the following statements I read out, please tell me how important you think each factor or development is in making mid-tier accounting firms a realistic alternative to a Big Four firm for the provision of audit services to your company?**

**[Read out each statement. Scale: very important, fairly important, not very important, not at all important, don't know.]**

A mid-tier firm with...

- technical auditing ability equivalent to a Big Four firm
- international coverage equivalent to a Big Four firm
- reputation among major shareholders equivalent to a Big Four firm
- reputation among company advisers (such as the corporate broker) equivalent to a Big Four firm

**Q19 Which of the following hypothetical audit firms would represent a serious alternative to a Big Four firm for your company's audit? [Prompted.]**

- A firm formed from a merger of several mid-tier firms to create an accounting firm of comparable size to the Big Four
- A well-established financial services company with a new auditing subsidiary
- A new entrant to the auditing market engaged purely in audit, with ex-Big Four staff
- Other (please specify)
- None

**Q20 Which of the following factors would effectively exclude an accounting firm other than your current auditor from providing audit services to your company?**

- It already provides consulting services to my company
- It already provides tax advice to my company
- It already provides corporate finance advice to my company



- It already audits one of my company's main competitors
- None of these

**Q21 To what extent do you agree or disagree with the following statement:**

‘Currently, there is enough choice of alternative auditors in the market for my company to choose from.’

- Strongly agree
- Tend to agree
- Neither agree nor disagree
- Tend to disagree
- Strongly disagree
- Don't know

## Appendix F

### Top 20 accountancy firms by fee income in Ireland

Firm	Fee Income in Ireland	Belong to International Group
PricewaterhouseCoopers	€181m	PricewaterhouseCoopers
KPMG	€176m	KPMG International
Deloitte & Touche	€114m	Deloitte & Touche
Ernst & Young	€110m	Ernst & Young
BDO Simpson Xavier	€54m	BDO International
Grant Thornton	€21m	Grant Thornton International
Mazars	€16m	Mazars International Association
Farrell Grant Sparks	€15m	Moore Rowland International
Horwath Bastow Charleton	€11m	Horwath International
Russell Brennan Keane	€11m	Kreston International and Leading Edge Alliance
Oliver Freaney	€8m	Nexia International
HLB Nathans	€7m	HLB International
RSM Robson Rhodes	€5m	RSM International
OSK	€5m	CPA Associates International
UHY O'Connor Leddy Holmes	€5m	UHY International
JPA Brenson Lawlor	€5m	JPA International
PKF Ryan Glennon	€5m	PKF International
Ormsby & Rhodes	€5m	BKR International
Moore Stephens Caplin Meehan	€4m	Moore Stephens International
Baker Tilly O'Hare	€4m	Baker Tilly International

Source: Madden, C. (2006) The top firms. *Business Plus*, March, pp 56-59. Available at: ([www.bizplus.ie/upload/documents/surveys/0306\\_Accountants.pdf](http://www.bizplus.ie/upload/documents/surveys/0306_Accountants.pdf))

## Appendix G

### Companies listed on the Irish Stock Exchange

1. Abbey Plc
2. Aer Lingus Group Plc
3. AGI Therapeutics Plc
4. Allied Irish Banks Plc
5. Amarin Corporation Plc
6. Aminex Plc
7. Anglo Irish Bank Corporation Plc
8. Anglo Irish Capital Funding Ltd
9. Ardent Group Plc
10. Bank of Ireland Plc
11. Blackrock International Land Plc
12. CRH Plc
13. C&C Group Plc
14. Calyx Group Plc
15. CPL Resources Plc
16. Datalex Plc
17. DCC Plc
18. Diageo Plc
19. Donegal Creameries Plc
20. Dragon Oil Plc
21. Élan Corporation Plc
22. FBD Holdings Plc
23. Fyfee Plc
24. Gartmore Irish Growth Fund Plc
25. Getmobile Europe Plc
26. Glanbia Plc
27. Glencar Mining Plc
28. Grafton Group Plc
29. Greencore Group Plc
30. Horizon Technology Group Plc
31. IAWS Group Plc
32. ICON Plc
33. IFG Group Plc
34. Independent News and Media Plc
35. Iona Technologies Plc
36. Irish Continental Group Plc
37. Irish Life and Permanent Plc
38. ISEQ Exchange Traded Fund Plc
39. Kenmare Resources Plc
40. Kerry Group Plc
41. Kingspan Plc
42. Lapp Plats Plc
43. McInerney Holdings Plc
44. Minmet Plc
45. Mosney Irish Holidays Plc
46. Newcourt Group Plc

## Appendix G

### Companies listed on the Irish Stock Exchange continued...

47. Norkom Group Plc
48. Oakhill Group Plc
49. Oglesby & Butler Plc
50. Ormonde Mining Plc
51. Ovoca Gold Plc
52. Paddy Power Plc
53. Petroceltic International Plc
54. Petroneft Resources Plc
55. Providence Resources Plc
56. Qualceram Shires Plc
57. Readymix Plc
58. Real Estate Opportunities Ltd
59. Ryanair Holdings Plc
60. Siteserv Plc
61. South Wharf Plc
62. Tesco Plc
63. Thirdforce Plc
64. Trinity Biotech Plc
65. Tullow Oil Plc
66. United Drug Plc
67. UTV Plc
68. Veris Plc
69. Viridian Group Plc
70. Vislink Plc
71. Waterford Wedgewood Plc

## Appendix H

### List of abbreviations

- APB Auditing Practices Board (UK/Ire)
- AQF Audit Quality Forum (UK)
- CLRG Company Law Review Group (Ireland)
- CGAA Coordinating Group on Audit and Accounting (UK)
- FRC Financial Reporting Council (UK)
- GAO General Accounting Office (USA)
- IAASA Irish Auditing and Accounting Supervisory Authority (Ireland)
- ICAI Institute of Chartered Accountants in Ireland (Ireland)
- ICGN International Corporate Governance Network
- IFSC International Financial Services Centre (Ireland)
- ISE Irish Stock Exchange (Ireland)
- OFT Office of Fair Trading (UK)
- PCAOB Company Accounting Oversight Board (USA)

## Bibliography & References

- Abidin, S., Beattie, V. and Goodacre, A. (2006) Audit market concentration and auditor choice in the UK. Available at:  
([www.frc.org.uk/documents/pagemanager/poba/Shamharir%20Abidin,%20Vivien%20Beattie%20and%20Alan%20Goodacre.pdf](http://www.frc.org.uk/documents/pagemanager/poba/Shamharir%20Abidin,%20Vivien%20Beattie%20and%20Alan%20Goodacre.pdf))
- Accountancy Age (2006) PwC to set up new firm in Japan. *Accountancy Age*, May 22. Available at:  
([www.accountancyage.com/accountancyage/news/2156527/pwc-set-firm-japan](http://www.accountancyage.com/accountancyage/news/2156527/pwc-set-firm-japan))
- Alexander, D. (2006) Letter to FRC re Discussion paper on choice in the UK audit market. Available at:  
([www.frc.org.uk/documents/pagemanager/poba/Duncan%20Alexander.pdf](http://www.frc.org.uk/documents/pagemanager/poba/Duncan%20Alexander.pdf))
- APB (2004) APB Ethical Standard 4: Fees, Remuneration and Evaluation Policies, Litigation, Gifts and Hospitality. December, Auditing Practices Board: London.
- AQF (2005a) Agency theory and the role of audit. Institute of Chartered Accountants in England and Wales: London pp 1-14. Available at:  
([www.icaew.co.uk/index.cfm?route=139474](http://www.icaew.co.uk/index.cfm?route=139474))
- AQF (2005b) Shareholder involvement – Competition and choice. Institute of Chartered Accountants in England and Wales: London pp1-21. Available at:  
([www.icaew.co.uk/index.cfm?route=139480](http://www.icaew.co.uk/index.cfm?route=139480))
- AQF (2005c) Audit Quality Forum calls for research into competition and choice in the audit market. July 26. Available at:  
([www.icaew.co.uk/index.cfm?route=122219](http://www.icaew.co.uk/index.cfm?route=122219))
- Audit Choice Project (2006) Available at:  
([www.frc.org.uk/about/auditchoice.cfm](http://www.frc.org.uk/about/auditchoice.cfm))

Beattie, V. and Fearnley, S. (1994) The changing structure of the market for audit services in the UK - A descriptive study. *British Accounting Review*, 26 (December) pp 301-322.

Beattie, V. and Fearnley, S. (1995) The importance of audit firm characteristics and the drivers of auditor change in UK listed companies. *Accounting and Business Research*, 25 (3) pp 227-239.

Beattie, V. and Fearnley, S. (1998) Audit market concentration and the impact of tendering. *British Accounting Review*, 30 (3) pp 261-289.

Beattie, V., Fearnley, S. and Peel, M.J. (1997) UK auditor concentration: A descriptive note. *Accounting and Business Research*, 27 (4) pp 311-322.

Beattie, V., Goodacre, A. and Fearnley, S. (2003) And then there were four: A study of UK audit market concentration – causes, consequences and the scope for market adjustment. *Journal of Financial Regulation and Compliance*, 11 (3) p 250.

Blokdijk, H., Driehuisen, F., Simunic, D.A. and Stein, M.T. (2006) An analysis of cross-sectional differences in big and non-big public accounting firms' audit programs. *Auditing: A Journal of Practice and Theory*, 25 (1) pp 27-48.

Bloom, R. and Schirm, D.C. (2005) Consolidation and competition in public accounting. *CPA Journal*, 75 (6) pp 20-24.

Burns, J. (2005) Moving the market: SEC's Cox wants simpler rules, more competition for accounting. *Wall Street Journal*, December 6, p3.

Carr, J. (2006a) Is there enough choice in the Irish audit market? *Finance Magazine*, August. Available at:  
[www.mazars.ie/initial/cms/php/workflow.php?queryType=3&item=news&itemIid=234](http://www.mazars.ie/initial/cms/php/workflow.php?queryType=3&item=news&itemIid=234)

Carr, J. (2006b) Time to shake up auditing status quo. *The Irish Times*, November 10. Available at: [www.mazars.ie/initial/cms/php/workflow.php?queryType=3&item=news&itemId=239](http://www.mazars.ie/initial/cms/php/workflow.php?queryType=3&item=news&itemId=239))

CGAA (2003a) Co-ordinating group on auditing and accounting issues: Final report to the Secretary of State for Trade and Industry and the Chancellor of the Exchequer. January 29. Available at: [www.dti.gov.uk/files/file20380.pdf](http://www.dti.gov.uk/files/file20380.pdf))

CGAA (2003b) Review of the regulatory regime of the accountancy profession: Report to the Secretary of State for Trade and Industry. January. Available at: [www.dti.gov.uk/files/file20417.pdf](http://www.dti.gov.uk/files/file20417.pdf))

Choi, M.S. and Zenghal, D. (1999) The effect of accounting firm mergers on international markets for accounting services. *Journal of International Accounting, Auditing and Taxation*, 8 (1) pp1-22.

Citron, D.B. and Manalis, G. (2001) The international firms as new entrants to the statutory audit market: an empirical analysis of auditor selection in Greece, 1993 to 1997. *European Accounting Review*, 10 (3) pp 439-459.

CLRG (2004) Report on Second Work Programme of Company Law Review Group 2002-2003. March 31. Available at: [www.clrg.org/\\_fileupload/1streport/SecondReportFinalDraft.pdf](http://www.clrg.org/_fileupload/1streport/SecondReportFinalDraft.pdf))

Coleman, M. (2007) Lack of choice in audit market 'harmful', *The Irish Times*, March 19, p16.

Cosserat, G.W. (2004) *Modern auditing*. 2<sup>nd</sup> Edition. Chichester: John Wiley & Sons Ltd.

Creswell, J.W. (2003) *Research design: Qualitative, quantitative and mixed methods approaches*. 2<sup>nd</sup> Edition. Thousand Oaks: Sage Publications.



Cunningham, C. (2005) Ruing Andersen's demise and the loss of audit competition. *Financial Executive*, 21 (6) p6.

De Cambourg, P. and Mellows, J. (2002) The Big Four should become the best seven: After Enron, France's system of joint audit can be recommended as a springboard to wider competition and technical assurance. *Financial Times*, October 31, p2.

Dickins, D. and Higgs, J.L. (2006) Shopping for an auditor. *The Journal of Corporate Accounting and Finance*, 17 (4) pp 9-15.

Duxbury, D., Moizer, P. and Wan-Mohamed, W.A. (2007) Effects of the PricewaterhouseCoopers merger on the UK audit services market. *Managerial Auditing Journal*, 22 (2) pp 121-138.

Easterby-Smith, M., Thorpe, R. and Lowe, A. (2002) *Management research methods*. 2<sup>nd</sup> Edition. London: Sage Publications.

Economist (2003) Gunning for KPMG. *Economist*, February 1, p63.

European Commission (1998) Case No IV/M.1016 – Price Waterhouse/ Coopers & Lybrand: Commission Decision. European Commission: Brussels, May 20.

Available at:

[http://ec.europa.eu/comm/competition/mergers/cases/decisions/m1016\\_19980520\\_590\\_en.pdf](http://ec.europa.eu/comm/competition/mergers/cases/decisions/m1016_19980520_590_en.pdf)

Evans, A.J. (2006) Sharpening the thinking about competition and choice in the UK audit industry. Available at:

[www.frc.org.uk/documents/pagemanager/poba/Anthony%20Evans.pdf](http://www.frc.org.uk/documents/pagemanager/poba/Anthony%20Evans.pdf)

Evans, A.J., von der Planitz, M., Dienst, K., Degrand-Guillaud, M., Streiff, M., Theisen, M. and von Trotha, F. (2006) How to increase competition in the audit market. Available at: [www.escp-eap.ac.uk/news.html?id=17](http://www.escp-eap.ac.uk/news.html?id=17)

Ferguson, A. and Stokes, D. (2002) Brand name audit pricing, industry specialisation, and leadership premiums post-Big 8 and Big 6 mergers. *Contemporary Accounting Research*, 19 (1) pp 77-110.

Financial Reporting Council (2006) Choice in the UK audit market. Financial Reporting Council Discussion Paper. May, pp 1-11. Available at: [www.frc.co.uk/images/uploaded/documents/Choice%20in%20the%20UK%20Audit%20Market%20Discussion%20Paper3.pdf](http://www.frc.co.uk/images/uploaded/documents/Choice%20in%20the%20UK%20Audit%20Market%20Discussion%20Paper3.pdf)

Financial Reporting Council (2007) Choice in the UK Audit Market: Interim report of the market participants group. April, pp1-54. Available at: [www.frc.org.uk/documents/pagemanager/frc/Visio-Choice%20MPG%20Interim%20Report%20web.pdf](http://www.frc.org.uk/documents/pagemanager/frc/Visio-Choice%20MPG%20Interim%20Report%20web.pdf)

Financial Times, (2006) When four is too few. The power of the largest audit firms is too concentrated. *Financial Times*, April 12, p16.

Firth, M. and Lau, T. (2004) Auditor pricing following mergers of accounting practices: evidence from Hong Kong. *Accounting and Business Research*, 34 (3) pp 201-214.

GAO Reports, (2003a) Report to the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services, Public accounting firms: Mandated study on Consolidation and Competition. *GAO Reports*, 30 July.

GAO Reports, (2003b) Report to the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services, Accounting Firms Consolidation: Selected large public company views on audit fees, quality, independence, and choice. *GAO Reports*, 30 September.

Geroski, P.A. (2003) Competition in markets and competition for markets. *Journal of Industry, Competition and Trade*, 3 (3) pp 151-166.

Ghuri, P. and Gronhaug, K. (2002) *Research methods in business studies: A*

*practical guide*. 2<sup>nd</sup> Edition. Harlow: FT Prentice Hall.

Ghosh, A. and Lustgarten, S. (2006) Pricing of initial audit engagements by large and small firms. *Contemporary Accounting Research*, 23 (2) pp 333-368.

Gill, J. and Johnson, P. (2002) *Research methods for managers*. 3<sup>rd</sup> Edition. London: Sage Publications.

Gonthier-Besacier, N. and Schatt, A. (2007) Determinants of audit fees for French quoted firms. *Managerial Auditing Journal*, 22 (2) pp 139-160.

Grant Thornton (2007) We need more than big four. Available at:  
([www.grantthornton.ie/viewArticle.aspx?articleId=676](http://www.grantthornton.ie/viewArticle.aspx?articleId=676))

Grant, P. (2005) DTI investigates Big Four's dominance. *Accountancy Age*, September 28. Available at:  
([www.accountancyage.com/accountancyage/news/2142948/big-three-dti-asks](http://www.accountancyage.com/accountancyage/news/2142948/big-three-dti-asks))

Gray, I. and Manson, S. (2000) *The audit process: Principles, practice and cases*. 2<sup>nd</sup> Edition. Cornwall: Thompson Learning.

Hambly, G. (2006) Audit clients have little choice. *Chartered Accountants Journal*, 85 (5) pp 79-80.

Hermanson, R.H., Dykes, L.M. and Turner, D.H. (1987) Enforced competition in the accounting profession – Does it make sense? *Accounting Horizons*, 1 (4) pp 13-19.

IAASA (2007) Directorate General for Internal Market and Services: Commission staff working paper: Consultation on auditors' liability and its impact on the European capital markets. January. Available at:  
([www.iaasa.eu/publications/EU\\_CION\\_LIABILITY\\_CP.pdf](http://www.iaasa.eu/publications/EU_CION_LIABILITY_CP.pdf))

ISE (2007) Irish Stock Exchange List. Available at:

[www.ise.ie/app/equityList.asp?list=full&type=PRICE](http://www.ise.ie/app/equityList.asp?list=full&type=PRICE)

Ivancevich, S. H. and Zardkoohi, A. (2000) An exploratory analysis of the 1989 accounting firm megamergers. *Accounting Horizons*, 14 (4) pp 389-401.

Iyer, V. and Iyer, G (1996) Effect of big eight mergers on audit fees: evidence from the United Kingdom. *Auditing: A Journal of Practice and Theory*, 15 pp 123-132.

Jankowicz, A.D. (2005) *Business research projects*. 4<sup>th</sup> Edition. London: Thompson Learning.

Jobson, B. (2006) Dominance of big four audit firms challenged \*ABI says some should be forced to shed clients. *Financial Times*, August 7, p1. Available at: <http://search.ft.com/iab?queryText=dominance%20of%20big%20four%20audit&aje=true&id=060807000939&location=http%3A%2F%2Fsearch.ft.com%2FftArticle%3FqueryText%3Ddominance+of+big+four+audit%26aje%3Dtrue%26id%3D060807000939&referer=http%3A%2F%2Fsearch.ft.com%2Fsearch%3FqueryText%3Ddominance+of+big+four+audit>

Jobson, B. (2007) Dominance of Big Four under attack. *Financial Times*, February 26. Available at: <http://search.ft.com/ftArticle?queryText=dominance+of+big+four+audit&aje=true&id=070226000797>

Kahn, R. and Cannell, C. (1957) *The dynamics of interviewing*. New York and Chichester: Wiley.

Kane, E. and O'Reilly-De Brun, M. (2001) *Doing your own research*. London: Marion Boyars Publishers.

Kennedy, E. (2007a) Niches services amongst key drivers of growth at Grant Thornton. *Accountancy Ireland*, 39 (1) pp 22-24.

Kennedy, E. (2007b) An international perspective: Mazars is growing in all areas says Joe Carr. *Accountancy Ireland*, 39 (2) pp 33-35.

Kennedy, E. (2007c) Consistency in client service and an eye for niche markets drive Horwath Bastow Charleton. *Accountancy Ireland*, 39 (2) pp 36-38.

Kennedy, E. (2007d) Customer focus is the name of the game at FGS says incoming MP, Ian Duffy. *Accountancy Ireland*, 39 (3) pp 42-44.

Kennedy, E. (2007e) Consistent growth keeps Russell Brennan Keane in the top ten firms. *Accountancy Ireland*, 39 (3) pp 46-49.

Koehler, B. (2006) Audit Market Failure. *Economic Affairs*, 26 (3) pp 67-69.

Kwon, S.Y. (1996) The impact of competition within the client's industry on the auditor selection decision. *Auditing: A Journal of Practice and Theory*, 15 (1) pp 53-68.

Lambe, A. (2007) Auditor liability – update on recent developments. *Accountancy Ireland*, 39 (1) pp 34-35.

Lee, D.S. (2005) The impact of the Big 8 mergers on market power: Evidence from the Hong Kong Market. *Journal of International Financial Management and Accounting*, 16 (1) pp 69-96.

Lin, H.H. and Wu, F.H. (2006) Limitations of Section 404 of the Sarbanes-Oxley Act. *The CPA Journal*, 76 (3) pp 48-54.

Liu, X. and Simunic, D.A. (2005) Profit sharing in an auditing oligopoly. *The Accounting Review*, 80 (2) pp 677-702.

London Economics (2006) Study on the economic impact of auditors' liability Regimes: Final report to EC-DG Internal Market and Services. Available at: [http://ec.europa.eu/internal\\_market/auditing/docs/liability/auditors-final-](http://ec.europa.eu/internal_market/auditing/docs/liability/auditors-final-)

report\_en.pdf)

Maher, M.W., Tiessen, P., Colson, R. and Broman, A.J. (1992) Competition and Audit Fees. *Accounting Review*, 67 (1) pp 199-211.

McGinley, S. (2006) Practice profile: PKF Ryan Glennon now in top 20. *Accountancy Ireland*, 38 (1) 54-56.

McMeeking, K.P. (2006) Improving choice in the UK audit market. August 1.

Available at:

([www.frc.org.uk/documents/pagemanager/poba/Dr%20Kevin%20McMeeking,%20University%20of%20Exeter.pdf](http://www.frc.org.uk/documents/pagemanager/poba/Dr%20Kevin%20McMeeking,%20University%20of%20Exeter.pdf))

McMeeking, K.P. (2007) Competition in the UK accounting services market. *Managerial Auditing Journal*, 22 (2) pp197-217.

McMeeking, K.P., Peasnell, K.V. and Pope, P.F. (2006) The determinants of the UK Big firm premium. *Accounting and Business Research*, 36 (3) pp 207-231.

McNulty, P.J. (1968) Economic theory and the meaning of competition. *Quarterly Journal of Economics*, 82 (4) pp 639-656.

Menon, K. and Williams, D.D. (2001) Long-term trends in audit fees. *Auditing: A Journal of Practice and Theory*, 20 (1) pp 116-136.

Millichamp, A. (2002) *Auditing*. 8<sup>th</sup> Edition, London: Continuum.

Moizer, P., Garcaa Benau, M.A., Humphrey, C. and Martanez, A.V. (2004) The corporate image of auditors in a developing audit market within the EU: the case of Spain. *European Accounting Review*, 13 (3) pp 561-582.

Newman, J. (2007) Audit choice: a chance to shine. *Accountancy Age*, January 12.

Available at:

([www.accountancyage.com/accountancyage/comment/2172493/audit-choice-](http://www.accountancyage.com/accountancyage/comment/2172493/audit-choice-)

chance-shine)

Niemi, L. (2004) Auditor size and audit pricing: evidence from small audit firms. *European Accounting Review*, 13 (3) pp 541-560.

O'Connor, A. (2007) Do we need more than the big four? *Accountingnet.ie*, March 2. Available at: ([www.accountingnet.ie/content/publish/article\\_1514.php](http://www.accountingnet.ie/content/publish/article_1514.php))

O'Halloran, C. (2007) Liability regime must be remedied to ensure strong audit profession, *The Irish Times*, February 16, p4.

OFT (2001) Competition in professions. March. Available at: ([www.ofst.gov.uk/NR/rdonlyres/B08439C8-C5F6-4946-8AFF-71C050D34F46/0/ofst328.pdf](http://www.ofst.gov.uk/NR/rdonlyres/B08439C8-C5F6-4946-8AFF-71C050D34F46/0/ofst328.pdf))

OFT (2002) Competition in audit and accountancy services. November. Available at: ([www.ofst.gov.uk/NR/rdonlyres/88B66223-F313-49E1-BAAB-DCFB9F484B04/0/accountancy.pdf](http://www.ofst.gov.uk/NR/rdonlyres/88B66223-F313-49E1-BAAB-DCFB9F484B04/0/accountancy.pdf))

OFT (2004) An assessment of the implications for competition of a cap on auditors' liability. July. Available at: ([www.ofst.gov.uk/NR/rdonlyres/56645C57-64C0-4810-957B-DAA740936FA6/0/ofst741.pdf](http://www.ofst.gov.uk/NR/rdonlyres/56645C57-64C0-4810-957B-DAA740936FA6/0/ofst741.pdf))

Oxera (2006) Competition and choice in the UK audit market: Prepared for Department of Trade and Industry and Financial, Oxford: Oxera Consulting Ltd. Available at: ([www.frc.org.uk/images/uploaded/documents/Competition%20and%20choice%20in%20the%20UK%20audit%20market1.pdf](http://www.frc.org.uk/images/uploaded/documents/Competition%20and%20choice%20in%20the%20UK%20audit%20market1.pdf))

Parker, A. (2005) US audit watchdog warns about industry. FT.com: London, September 28, p1.

Parkinson, A. (2006) Institutes insist on audit quality: the largest institutes in the UK have all put forward suggestions on how best to address the issue of

competition in the UK audit market and how the Financial Reporting Council should now start to proceed. *The Accountant*, August, pp 6-7.

Pearson, T. and Trompeter, G. (1994) Competition in the market for audit services, the effect of supplier concentration on audit services. *Contemporary Accounting Research*, 11 (1) pp 115-135.

Perrin, S. (2006a) Shed a tier: competition in the big four. *Finance Director*, August 31. Available at: ([www.accountancyage.com/financial-director/features/2163517/shed-tier](http://www.accountancyage.com/financial-director/features/2163517/shed-tier))

Perrin, S. (2006b) If four become three. *Finance Director*, October 26.

Piot, C. (2007) Auditor concentration in joint-auditing environment: the French market 1997-2003. *Managerial Auditing Journal*, 22 (2) pp 161-176.

Pitman, J.A. and Fortin, S. (2004) Auditor choice and the cost of debt capital for newly public firms. *Journal of Accounting and Economics*, 37 (1) pp 113-136.

Pong, C.K.M. (1999) Auditor concentration: a replications and extension for the UK audit market 1991-1995. *Journal of Business Finance and Accounting*, 26 (3/4) pp 451-475.

Pong, C.K.M. (2004) A descriptive analysis of audit price changes in the UK 1991-1995. *European Accounting Review*, 3 (1) pp 161-178.

Pong, C.K.M. and Burnett, S. (2006) The implications of merger for market share, audit pricing and non-audit fee income: The case of PriceWaterhouseCoopers. *Managerial Auditing Journal*, 21(1) p7-22.

Porter, B., Simon, J and Hatherly, D. (2003) *Principles of external auditing*. 2<sup>nd</sup> Edition. Chichester: John Wiley & Sons Ltd.

Raghunandan, K. and Rama, D.V. (1999) Auditor resignations and the market for



audit services. *Auditing*, 18 (1) pp 124-135.

Rama, D.V. and Read, W. (2006) Resignations by the big four and the market for audit services. *Accounting Horizons*, 20 (2) pp 97-109.

Remenyi, D., Williams, B., Money, A. and Swartz, E. (2003) *Doing research in business and management: An introduction to process and method*. London: Sage Publications.

Riley, M., Wood, R.C., Clark, M.A., Wilkie, E. and Szivas, E. (2000) *Research and writing dissertations in business and management*. London: Thompson.

Robson, C. (2002) *Real world research*. 2<sup>nd</sup> Edition. Oxford: Blackwell.

Sands, J. and McPhail, J. (2003) Choice criteria of listed Australian public companies for selecting an auditor: An exploratory study. *International Journal of Business Studies*, 11 (1) pp 109-133.

Saunders, M., Lewis, P. and Thornhill, A. (2000) *Research methods for business students*. 2<sup>nd</sup> Edition. Harlow: FT Prentice Hall.

Saunders, M., Lewis, P. and Thornhill, A. (2003) *Research methods for business students*. 3<sup>rd</sup> Edition. Harlow: FT Prentice Hall.

Shailer, G., Cummings, L., Vatuloka, E. and Wlech, S. (2004) Discretionary pricing in a monopolistic audit market. *International Journal of Auditing*, 8 (3) pp 263-277.

Shapiro, S.P. (2005) Agency theory. *Annual Review of Sociology*, 31 pp 263-284.

Shoesmith, C. (2007) 'Big Four' too dominant – study, *The Irish Times*, June 25, p16.

Smith, P. (2006) FRC considers action on audit competition. *Accountancy*, 138

(1358) p9.

Smith, P. (2007) Audit choice moves help Big Four. *Accountancy*, 139 (1366) p5.

Solomon, D. and Gullapalli, D. (2005) SEC weighs a 'Big Three' world. *Wall Street Journal*, June 22.

Sullivan, M.W. (2002) The effect of the Big Eight accounting firm mergers on the market for audit services. *The Journal of Law and Economics*, 45 pp 375-399.

Tong, L. (2006) Does opinion shopping impair auditor independence and audit quality. *Journal of Accounting research*, 44 (3) pp 561-583.

Tonge, S. D. and Wooton, C. W. (1991) Auditor concentration and competition among the large public accounting firms, post merger status and future implications. *Journal of Accounting and Public Policy*, 10 (2) pp 157-172.

Tyrrell, A. (2004) Accounting for marketing or marketing for accounting? *Accountancy Ireland*, 36 (2) pp 16-19.

U.S. Dept of Justice (2005) KPMG to pay \$456 million for criminal violations in relation to largest-ever tax shelter fraud case. *U.S. Department of Justice*, August 29. Available at: ([www.usdoj.gov/opa/pr/2005/August/05\\_ag\\_433.html](http://www.usdoj.gov/opa/pr/2005/August/05_ag_433.html))

Willekens, M. and Achmadi, C. (2003) Pricing and supplier concentration in the private client segment of the audit market: Market power or competition? *The International Journal of Accounting*, 38 pp 431-455.

Wilson, M. (2007) What is the key threat facing the audit profession? Auditor Liability - the reform imperative Representation 03/2007. ICAI, February.

Available at:

([www.icaei.ie/documents/Auditor%20Liability%202007%20Feb%20final%20rep032007.pdf](http://www.icaei.ie/documents/Auditor%20Liability%202007%20Feb%20final%20rep032007.pdf))

Wolk, C.M., Michelson, S.E., and Wootton, C.W. (2001) Auditor concentration and market shares in the US: 1998-1999 a descriptive note. *British Accounting Review*, 33 (2) pp 157-174.

Zimund, W.G. (2003) *Business research methods*. 7<sup>th</sup> Edition. Mason: Thompson.