

An investigation into the audit exemption and developments in the auditing sector

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

Submitted by: Leona Clancy
Presented to: Ms. Anne Burke
Department of Business
School of Business
Letterkenny Institute of Technology
Date: August 2008
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: _____

Disclaimer 3

I confirm that my thesis is 15693 words in lengths. This includes all text, references and quotations. It excludes the abstract, supplements to text, diagrams, appendices, references and bibliographies.

Signed: _____

Date: _____

Abstract

With the audit exemption thresholds rising in 2006, this poses the question whether it will have impact on the auditing sector. Presently there is a lot of interest in this area, with the Institute of Chartered Accountants in England and Wales (ICAEW) in the United Kingdom (UK) launching a consultation exercise on the impact the audit exemption has had on their auditing sector. While the United States (US) has gone under major restructuring to its auditing sector, due to the income from auditing diminishing and the profession had to alter its products.

Therefore, this research explores the development of the audit exemption, and the evolution and progression of the auditing sector. The purpose of this research is to determine why the audit exemption was established and to investigate its impact on the auditing industry. It also investigates if the auditing sector has developed alternative services that could be provided to the public. The researcher did an extensive literature search on the area audit exemption and sent questionnaires the top twenty accounting firms. The researcher also interviewed the three Irish accounting bodies to discover their views on the area.

The literature shows there is a shift in the activities being performed by auditors internationally. Professional bodies have responded to the changing environment by updating the professional practices framework and expanding the skills and knowledge required to provide assurance in the future. The research has found that more than 50 percent of respondents felt an impact from the recent rise in audit thresholds, with 40 percent of respondents revenue decreasing and 50 percent saying it had decreased the number of audits performed by them. This research has also identified a clear gap for providing alternative services to the audit, such as assurance services, with 90 percent of respondents feeling they could be provided in Ireland. However, the demand for the services was highlighted as a concern by the accounting bodies. In conclusion, the top twenty accounting bodies have felt an impact by the recent rise in the audit exemption thresholds, and this research has identified potential alternative services.

Dedication

I would like to dedicate this book to my loving Mother, Father and Boyfriend, for their continued help, encouragement and support over the past five years.

Acknowledgements

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

- I would like to thank my parents, Eileen and Sylvester, my sisters, Eileen and Michelle, my brother, Sylvester and boyfriend, Danny, for their continued support over the past five years, without whose help and support completion of this course would not have been possible.
- I would like to express gratitude to my supervisor, Ms Anne Burke for all her guidance, support and encouragement during the year.
- I would also like to thank my extended family, friends and the Masters of Accounting class who made my educational experience, achievable and enjoyable.
- I would like to thank to all the individuals who participated in my research, the three interviewees and all the respondents to my questionnaire. This dissertation has benefited greatly from their assistance.
- The LYIT Masters and extended business school lecturers and staff and the LYIT library staff who were very kind and obliging.
- Finally, a special thanks to my Mother, who proof read my dissertation several times.

Table of contents

	Page Number
Abstract	i
Dedication	ii
Acknowledgements	iii
Table of contents	iv
List of Tables and Figures	viii
Chapter 1: Introduction	
1.1 Introduction	1
1.2 Research aims and objectives	2
1.3 Rationale for the research	3
1.4 Potential uses and limitations of this research	4
1.5 Chapter outline	5
Chapter 2: Literature Review	
2.1 Introduction	6
2.2 Audits	6
2.2.1 Justification of an audit	6
2.2.2 Irish accounting firms	8
2.2.3 Audit training requirements	9
2.3 The audit exemption	9
2.3.1 Justification of the audit exemption	10
2.3.2 Global developments	10
2.3.3 Ireland	11
2.4 Developments in the auditing sector	13
2.4.1 Global developments	15
2.4.2 The United States and Canada	17
2.4.3 The United Kingdom	20
2.4.4 Ireland	22
2.5 Conclusion	22

Chapter 3: Research Methodology

3.1 Introduction	24
3.2 Research philosophy	24
3.2.1 Positivism	25
3.2.2 Interpretivism	25
3.2.3 Research philosophy adopted	26
3.3 Research focus	26
3.3.1 Exploratory research	27
3.3.2 Descriptive research	27
3.3.3 Explanatory research	27
3.3.4 Research focus adopted	27
3.4 Data collection methods	28
3.4.1 Questionnaires	28
3.4.2 Interviews	30
3.4.2.1 Unstructured interviews	30
3.4.2.2 Semi-structured interviews	31
3.4.2.3 Structured Interviews	31
3.4.2.4 Tape-Recording Interviews	31
3.4.3 Secondary research	32
3.4.4 Data collection methods adopted	32
3.4.4.1 Semi-structured interviews	33
3.4.4.2 Questionnaires	34
3.4.4.2.1 Questionnaires research population	35
3.4.4.3 Secondary research	35
3.5 Data analysis	36
3.6 Limitations of research	36
3.7 Conclusion	37

Chapter 4: Findings & Analysis

4.1 Introduction	38
4.2 Analysis of survey results and interview findings	38
4.2.1 Demographic results	38
4.2.2 The auditing sector	41
4.2.3 The audit exemption	43
4.2.4 Assurance services	53
4.3 Conclusion	59

Chapter 5: Conclusions & Recommendations

5.1 Introduction	60
5.2 Overview of the main findings	60
5.2.1 Why the audit exemption was established	61
5.2.2 The development of the audit exemption in Ireland and internationally	61
5.2.3 The impact of the audit exemption in Ireland and internationally	61
5.2.4 Irish and international developments in the auditing sector	62
5.2.5 Alternatives to the audit and does a gap exist in Ireland to provide such services	63
5.2.6 The nature and extent of the impact of the rise in the audit exemption threshold on the top twenty accounting firms in Ireland	64
5.2.7 Decline in the demand of audits in the top 20 accounting firms in Ireland	65
5.2.8 Level and nature of interest that the top 20 accounting firms have in providing alternatives to the audit in Ireland	65
5.2.9 The concerns in relation to providing alternative services	66
5.2.10 Establish if an expectation gap will emerge for these services	66
5.3 Recommendations	67
5.4 Areas of future research	68
5.5 Conclusion	69

References	70
-------------------	----

Appendices

– 1	Top 20 accountancy firms by fee income in Ireland	78
– 2	Top 20 accountancy firms by income breakdown	79
– 3	Top 20 accountancy firms areas of strongest growth by sector	80
– 4	Interview guide for accounting bodies	81
– 5	Cover letter for survey	84
– 6	Questionnaire: The audit exemption	86
– 7	Summary of results from questionnaire	94
– 8	List of abbreviations	111

List of Tables & Figures

	Page Number
Tables	
2.1 Advantages of audits	7
2.2 Requirements of audit exemption	12
2.3 Professional groups established in the United States	18
2.4 Summary of assurance services developed by Elliott committee	19
3.1 Criticisms of positivism	25
3.2 Criticisms of interpretivism	26
3.3 Advantages and disadvantage of tape-recording an interview	32
Figures	
2.1 The revised assurance IAASB framework	17
3.1 Primary data collection methods	28
3.2 Types of questionnaires	29
3.3 Types of interviews	30
4.1 What would you perceive to be the most important clients to your accounting firm?	39
4.2 What percentage of your staff is involved in auditing?	39
4.3 What service provides the most revenue to your firm?	40
4.4 What percentage of your income is derived from auditing?	40
4.5 Has your accountancy firm perceived a shift in the accounting environment from traditional accounting services, to non-traditional services?	41
4.6 What do you perceive to be the greatest threat to the auditing sector in Ireland over the next ten years?	43
4.7 Do you feel the audit is still a cost effective exercise for audit exempt companies?	44

4.8	The audit exemption has recently raised its thresholds under EU law; do you feel this increase has had an impact on your accounting firm?	45
4.9	Has the rise in the audit exemption reduced the number of audits carried out by your firm?	46
4.10	What percentage of your clients has availed of the audit exemption since the thresholds have increased to the new levels?	47
4.11	Has the rise in the audit exemption lead to a decrease in revenue from auditing in your accounting firm?	47
4.12	What percentage of your income has decreased as a result of the rise of the audit exemption thresholds?	48
4.13	Has the audit exemption issue affected your accounting firm's development plans for the future?	49
4.14	What new or emerging areas of work will your firm try to break into over the next ten years?	49
4.15	Does your firm have a strategy in place to cope with the continual rises in the audit exemption to EU levels?	50
4.16	Do you feel that your firm will continue to meet the requirement in order to train your employees to be qualified auditors?	51
4.17	Has your accountancy body provided guidance on the audit exemption since the increase in its thresholds?	52
4.18	What guidance has your accounting body provided on the audit exemption?	53
4.19	Do you feel it is possible assurance services could be provided in Ireland?	54
4.20	Do you feel this could be a viable substitute for companies who have felt a loss of income from the rise in the audit exemption thresholds?	55
4.21	Would your accounting firm be interested in providing such services to your clients?	55
4.22	Do you feel a demand would exist for such services with audit exempt companies?	56

4.23	What issues to you feel would need to be addressed with regards to providing such assurance services?	57
4.24	Do you feel an expectation gap will arise to the client on the difference between auditing and assurance services?	58
4.25	Do you feel that if assurances services were introduced they would help narrow or broaden the Audit expectation gap of the client?	58
4.26	Do you feel your accounting firm will continue to provide audit services to your clients in the coming years?	59

Abstract

With the audit exemption thresholds rising in 2006, this poses the question whether it will have impact on the auditing sector. Presently there is a lot of interest in this area, with the Institute of Chartered Accountants in England and Wales (ICAEW) in the United Kingdom (UK) launching a consultation exercise on the impact the audit exemption has had on their auditing sector. While the United States (US) has gone under major restructuring to its auditing sector, due to the income from auditing diminishing and the profession had to alter its products.

Therefore, this research explores the development of the audit exemption, and the evolution and progression of the auditing sector. The purpose of this research is to determine why the audit exemption was established and to investigate its impact on the auditing industry. It also investigates if the auditing sector has developed alternative services that could be provided to the public. The researcher did an extensive literature search on the area audit exemption and sent questionnaires to the top twenty accounting firms. The researcher also interviewed the three Irish accounting bodies to discover their views on the area.

The literature shows there is a shift in the activities being performed by auditors internationally. Professional bodies have responded to the changing environment by updating the professional practices framework and expanding the skills and knowledge required to provide assurance in the future. The research has found that more than 50 percent of respondents felt an impact from the recent rise in audit thresholds, with 40 percent of respondents revenue decreasing and 50 percent saying it had decreased the number of audits performed by them. This research has also identified a clear gap for providing alternative services to the audit, such as assurance services, with 90 percent of respondents feeling they could be provided in Ireland. However, the demand for the services was highlighted as a concern by the accounting bodies. In conclusion, the top twenty accounting bodies have felt an impact by the recent rise in the audit exemption thresholds, and this research has identified potential alternative services.

Dedication

I would like to dedicate this book to my loving Mother, Father and Boyfriend, for their continued help, encouragement and support over the past five years.

Acknowledgements

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

- I would like to thank my parents, Eileen and Sylvester, my sisters, Eileen and Michelle, my brother, Sylvester and boyfriend, Danny, for their continued support over the past five years, without whose help and support completion of this course would not have been possible.
- I would like to express gratitude to my supervisor, Ms Anne Burke for all her guidance, support and encouragement during the year.
- I would also like to thank my extended family, friends and the Masters of Accounting class who made my educational experience, achievable and enjoyable.
- I would like to thank to all the individuals who participated in my research, the three interviewees and all the respondents to my questionnaire. This dissertation has benefited greatly from their assistance.
- The LYIT Masters and extended business school lecturers and staff and the LYIT library staff who were very kind and obliging.
- Finally, a special thanks to my Mother, who proof read my dissertation several times.

Table of contents

	Page Number
Abstract	i
Dedication	ii
Acknowledgements	iii
Table of contents	iv
List of Tables and Figures	viii
Chapter 1: Introduction	
1.6 Introduction	1
1.7 Research aims and objectives	2
1.8 Rationale for the research	3
1.9 Potential uses and limitations of this research	4
1.10 Chapter outline	5
Chapter 2: Literature Review	
2.1 Introduction	6
2.2 Audits	6
2.2.1 Justification of an audit	6
2.2.2 Irish accounting firms	8
2.2.3 Audit training requirements	9
2.3 The audit exemption	9
2.3.1 Justification of the audit exemption	10
2.3.2 Global developments	10
2.3.3 Ireland	11
2.4 Developments in the auditing sector	13
2.4.1 Global developments	15
2.4.2 The United States and Canada	17

2.4.3 The United Kingdom	20
2.4.4 Ireland	22
2.5 Conclusion	22

Page Number

Chapter 3: Research Methodology

3.1 Introduction	24
3.2 Research philosophy	24
3.2.1 Positivism	25
3.2.2 Interpretivism	25
3.2.3 Research philosophy adopted	26
3.3 Research focus	26
3.3.1 Exploratory research	27
3.3.2 Descriptive research	27
3.3.3 Explanatory research	27
3.3.4 Research focus adopted	27
3.4 Data collection methods	28
3.4.1 Questionnaires	28
3.4.2 Interviews	30
3.4.2.1 Unstructured interviews	30
3.4.2.2 Semi-structured interviews	31
3.4.2.3 Structured Interviews	31
3.4.2.4 Tape-Recording Interviews	31
3.4.3 Secondary research	32
3.4.4 Data collection methods adopted	32
3.4.4.1 Semi-structured interviews	33
3.4.4.2 Questionnaires	34
3.4.4.2.1 Questionnaires research population	35
3.4.4.3 Secondary research	35

3.5 Data analysis	36
3.6 Limitations of research	36
3.7 Conclusion	37

Chapter 4: Findings & Analysis

4.1 Introduction	38
4.2 Analysis of survey results and interview findings	38
4.2.1 Demographic results	38
	Page Number
4.2.2 The auditing sector	41
4.2.3 The audit exemption	43
4.2.4 Assurance services	53
4.3 Conclusion	59

Chapter 5: Conclusions & Recommendations

5.1 Introduction	60
5.2 Overview of the main findings	60
5.2.1 Why the audit exemption was established	61
5.2.2 The development of the audit exemption in Ireland and internationally	61
5.2.3 The impact of the audit exemption in Ireland and internationally	61
5.2.4 Irish and international developments in the auditing sector	62
5.2.5 Alternatives to the audit and does a gap exist in Ireland to provide such services	63
5.2.6 The nature and extent of the impact of the rise in the audit exemption threshold on the top twenty accounting firms in Ireland	64
5.2.7 Decline in the demand of audits in the top 20 accounting firms in Ireland	65

5.2.8 Level and nature of interest that the top 20 accounting firms have in providing alternatives to the audit in Ireland	65
5.2.9 The concerns in relation to providing alternative services	66
5.2.10 Establish if an expectation gap will emerge for these services	66
5.3 Recommendations	67
5.4 Areas of future research	68
5.5 Conclusion	69

Page Number

References	70
-------------------	----

Appendices

– 1	Top 20 accountancy firms by fee income in Ireland	78
– 2	Top 20 accountancy firms by income breakdown	79
– 3	Top 20 accountancy firms areas of strongest growth by sector	80
– 4	Interview guide for accounting bodies	81
– 5	Cover letter for survey	84
– 6	Questionnaire: The audit exemption	86
– 7	Summary of results from questionnaire	94
– 8	List of abbreviations	111

List of Tables & Figures

	Page Number
Tables	
2.1 Advantages of audits	7
2.2 Requirements of audit exemption	12
2.3 Professional groups established in the United States	18
2.4 Summary of assurance services developed by Elliott committee	19
3.1 Criticisms of positivism	25
3.2 Criticisms of interpretivism	26
3.3 Advantages and disadvantage of tape-recording an interview	32
Figures	
2.1 The revised assurance IAASB framework	17
3.1 Primary data collection methods	28
3.2 Types of questionnaires	29
3.3 Types of interviews	30
4.1 What would you perceive to be the most important clients to your accounting firm?	39
4.2 What percentage of your staff is involved in auditing?	39
4.3 What service provides the most revenue to your firm?	40
4.4 What percentage of your income is derived from auditing?	40
4.5 Has your accountancy firm perceived a shift in the accounting environment from traditional accounting services, to non-traditional services?	41
4.6 What do you perceive to be the greatest threat to the auditing sector in Ireland over the next ten years?	43

4.7 Do you feel the audit is still a cost effective exercise for audit exempt companies?

44

Page Number

4.8 The audit exemption has recently raised its thresholds under EU law; do you feel this increase has had an impact on your accounting firm? 45

4.9 Has the rise in the audit exemption reduced the number of audits carried out by your firm? 46

4.10 What percentage of your clients has availed of the audit exemption since the thresholds have increased to the new levels? 47

4.11 Has the rise in the audit exemption lead to a decrease in revenue from auditing in your accounting firm? 47

4.12 What percentage of your income has decreased as a result of the rise of the audit exemption thresholds? 48

4.13 Has the audit exemption issue affected your accounting firm's development plans for the future? 49

4.14 What new or emerging areas of work will your firm try to break into over the next ten years? 49

4.15 Does your firm have a strategy in place to cope with the continual rises in the audit exemption to EU levels? 50

4.16 Do you feel that your firm will continue to meet the requirement in order to train your employees to be qualified auditors? 51

4.17 Has your accountancy body provided guidance on the audit exemption since the increase in its thresholds? 52

4.18 What guidance has your accounting body provided on the audit exemption? 53

4.19 Do you feel it is possible assurance services could be provided in Ireland? 54

4.20 Do you feel this could be a viable substitute for companies who have felt a loss of income from the rise in the audit exemption thresholds? 55

4.21	Would your accounting firm be interested in providing such services to your clients?	55
4.22	Do you feel a demand would exist for such services with audit exempt companies?	56
4.23	What issues to you feel would need to be addressed with regards to providing such assurance services?	57

Page Number

4.24	Do you feel an expectation gap will arise to the client on the difference between auditing and assurance services?	58
4.25	Do you feel that if assurances services were introduced they would help narrow or broaden the Audit expectation gap of the client?	58
4.26	Do you feel your accounting firm will continue to provide audit services to your clients in the coming years?	59

Chapter 1

Introduction

1.1 Introduction

Over the past decade, there have been significant changes to the accounting regulatory environment including the introduction of new auditing standards. This is in part due to the corporate scandals that have rocked the accounting industry, such as Enron. Like Ireland, many countries have tightened their controls over companies, by implementing accounting standards that are more stringent. However, this has had an adverse affect on small indigenous firms due to the heavy regulatory and financial burden (Kenny, 2005). Therefore, the audit exemption has prevailed, with many small companies taking advantage of it. Consequently, this has had an adverse affect on accounting firms globally, with many firms seeing income from auditing services diminishing (ICAEW, 2006a).

This has prompted the accounting profession to rethink the process of audit delivery (MacLulich, 2003). Presently there is a lot of interest in this area, with the ICAEW launching a consultation exercise on the impact the audit exemption has had on the UK auditing sector and the US has undergone major restructuring to its auditing sector, due to the income from auditing diminishing and therefore, the profession having to alter its products (Parker, 2001). Facing flat or decreasing revenue from audit services, standard setters for professional accountants from America, Europe and Australia have been proactively identifying and analysing future trends affecting the auditing profession and translating their analysis into new assurance service offerings (Burke *et al.*, 2003). This then begs the question that with the rise in audit exemption thresholds in 2006, whether a similar situation has occurred in Ireland, and whether a market may exist for assurance services here.

1.2 Research aims and objectives

This dissertation aims to address the following issues:

- How the audit exemption has evolved and impacted accounting firms in Ireland and internationally
- To investigate developments in the auditing sector in the past 20 years
- To discover if the rise of the audit exemption thresholds has had an impact on the top 20 accounting firms in Ireland
- What the future of auditing holds for the top 20 accounting firms in Ireland

The research objectives are:

1. To determine why the audit exemption was established
2. To trace the developments of the audit exemption in Ireland and internationally
3. To establish the impact, if any, the audit exemption has had on the audit sector in Ireland and internationally
4. To trace Irish and international developments in the auditing sector
5. To establish if alternatives exist for audits, and if a gap may exist in Ireland to provide such alternatives
6. To investigate the nature and extent of the impact of the rise in the audit exemption threshold on the top 20 accounting firms in Ireland
7. To investigate whether the rise in the audit exemption threshold has led to a decline in the demand of audits in the top 20 accounting firms in Ireland
8. To understand the level and nature of interest that the top 20 accounting firms have in providing alternatives to the audit in Ireland
9. To understand the perceived concerns in relation to providing alternative services
10. To establish if an expectation gap exist on the difference between auditing and assurance services

The first research aim was refined into the first three objectives. These objectives were answered mainly by the literature in chapter two, however, the views of the accounting bodies and firms were also used to answer objective one. The next aim of the research was broken into two objectives, the developments in the auditing sector and investigating if alternatives for the audit exist. The objective regarding the developments in the auditing sector was answered by a combination of literature and by both primary methods of data collection, questionnaires and interviews. The objective regarding investigating alternatives to the audit was answered solely by literature. The next research aim was also broken into two research objectives, investigating the impact the rise in the audit exemption threshold has had on the top 20 accounting firms in Ireland and whether the rise in the audit exemption threshold has led to a decline in the demand of audits in the top 20 accounting firms in Ireland. The objective regarding the impact of the audit exemption was answered by both primary methods of data collection and literature, and the objective regarding the decline in demand for audits was answered by the literature and the questionnaires. The final aim was divided into the last three objectives. Firstly, to investigate the nature of interest in alternative services, this was answered by the literature and the two primary research methods. Finally, their concerns regarding alternative services and the research objective regarding whether an expectation gap would emerge were both answered through the interviews and questionnaires.

1.3 Rationale for the research

The evolution of the auditing sector has been a subject of interest for the past number of years. With corporate scandals blackening the auditing sector, much emphasis has been placed on the tightening of controls. Conversely, such tight controls have led governments to offer the audit exemption to small companies, as they were heavily burdened under the new regulations (Kenny, 2005). Therefore, internationally there has been a lot of interest in the area of the audit exemption. This has led to various reports, and new standards being introduced for the evolution of the new phase of auditing services, such as International Standards on Assurance Engagements (ISAE) 3000.

Extensive studies have been carried out in the UK, the US, and in other European Countries on this area.

Despite this, no significant research has been conducted in Ireland. The recent rise in the audit exemption will only come into affect for companies with accounting periods' ending in 2007, therefore, research into this area is important by its economic importance and relevancy as it investigates the recent impact of the rise in audit exemption thresholds and gives some insight into the possible opportunities to provide alternative services. This research explores the developments of the audit exemption and the auditing sector internationally, and investigates whether a similar situation has occurred in the top 20 accounting firms in Ireland. If so, this could lead to job losses, loss of public trust in the auditing sector and a bleak future for the accounting industry.

1.4 Potential uses and limitations of this research

Firstly, the Irish accounting bodies could use this research, as needed to facilitate any changes that may occur in the auditing sector by providing training to their members or conducting reports. The accounting bodies are there to offer their members support and information, such as advising them on the diversification of the accounting industry and support on providing assurance services. This research will offer them vital information on the affect the rise of the thresholds has had on their members so they can take any action deemed necessary to facilitate any changes that occur. The accounting bodies must also regulate and protect their members', therefore; the introduction of alternative services will require the accounting bodies to train their own staff to regulate such activities.

Accountings firms may also use this research. Particularly firms, which may have felt the negative affect of the rise of the thresholds by allowing them to see the consensus among other accountants in Ireland and providing information on alternative services that, may supplement the income they have lost since the rise in the audit exemption thresholds.

This research may be of value to several parties, and the results of this research will be important for the progression of the accounting industry. However, this research does contain limitations, and while investigating the developments in other countries provides suggestions for broadening the auditing sector here, some things cannot be changed due to legislation, and other issues will involve a significant time scale for such amendments to be implemented. Further limitations to this research are outlined in section 3.6.

1.5 Chapters outline

The literature for the audit exemption and international developments 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 interviews 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 audit exemption and developments in the auditing sector.

2.2 Audits

Under the Companies Act 1963-2006, all limited companies both private and public are required to be audited by an independent auditor. The definition of an audit has evolved and developed over the past century, however common elements reoccur in the various definitions of an audit.

Gray and Manson (2000) define an audit as an investigation or a **search for evidence**, to enable an **opinion to be formed** on the **truth and fairness** of financial and other information, by a person who is **independent** of the preparer and persons likely to gain directly from the use of the information, and to issue a report on the information to increase its **credibility** and therefore its usefulness.

Recently the viability of auditing has been questioned, due to various qualifications, such as Enron, that have made the media. Therefore, highlighting the justification for an audit is important.

2.2.1 Justification of an audit

Wallace (1980, cited Cosserat, 2004) identifies three justifications as to why an audit is needed, the information hypothesis, the agency theory and the insurance hypothesis.

These are primary justifications for undertaking an audit. Kenny (2005) and the ICAEW (2004) highlight some advantages of having an audit as outlined in table 2.1.

Table 2.1: Advantages of an audit

Improves the accuracy of information and adds creditability to that information
Adds to integrity of the financial information used
Level of assurance that the company's systems and controls are effective
The management letter provides financial advice
Act as a deterrent to risk of fraud, money laundering and other illegal activities
Provides information on the stewardship of the company
Increases confidence that the information meets statutory requirements
Improves decision-making
Growing private companies planning to become public must have audited accounts for the previous three years

Small and Medium-sized Enterprises (SME) in Ireland have expressed concerns on the cost of the audited accounts with an Institute of Chartered Accountants in Ireland (ICAI) survey in 2006 finding that 86 percent of the companies expected their audit fees to rise due to the changeover to the new auditing standards. Fearnley *et al.* (2000) and Kenny (2005) feel that the key argument against the audit is that it puts unnecessary financial, administrative and regulatory pressure on small owner managed companies. While, Mackenzie (1966, cited Chambers, 2006) states that, where there is any responsibility there should be an obligation to account for performance otherwise irresponsibility and corruption will tend to develop and there is little doubt that, where audits are not performed, fraud and errors are more likely to remain undetected.

The researcher agrees with the justification of an audit highlighted by Kenny (2005) and the ICAEW (2004). However, the researcher does feel that the burden of the audit outweighs the perceived benefits for small owner managed companies as does Fearnley *et al.* (2000). The researcher believes that the audited financial statements are only one

instrument to which a stakeholder would refer to before making an important decision and other instruments may be of greater value to users of the accounts. Despite this, the researcher does agree with Mackenzie (1966, cited Chambers, 2006) but feels there is scope for a broader approach to be applied to gain assurance of performance.

2.2.2 Irish accounting firms

The top 20 accounting firms is completed by the Finance Magazine annually based on the income, employees, growth and efficiency of the firms as can be seen in appendix one. Within the top 20 accounting firms, the majority of activity is concentrated within the 'Big 4'. In 2006, the 'Big 4' accounted for 73.5 percent of the top 20 accounting firms income and this increased to 75.2 percent in 2007. This supports O'Halloran (2007) who suggests that almost all major companies were audited by one of the 'Big 4'. However, despite this, mid-tier firms secured the biggest growth by approximately a 30 percent increase in revenues. The distinction between the fifth largest firm and the company that precedes them shows that those ranked in fourth position had double the income of the company ranked in fifth place.

The auditing and accounting sector contributes significantly to the incomes earned by the top 20 accounting firms, averaging at 40 percent of the accounting firm's total income (appendix two). However, excluding the 'Big 4' firms i.e. the mid-tier firms, the audit and accounting sector accounts for 45 percent of their income. This shows a significant reliance on incomes earned from accounting and auditing services, with one company reporting 85 percent of their income is attributable to accounting and auditing. This supports Carr (2006) assumption who argues that companies outside the 'Big 4' need to differentiate themselves by specialising in other sectors. Statistics also show the firms increased in demand for accounting and auditing services has fallen from 35 percent in 2006 to 10 percent in 2007, which is worrying sign for the future of auditing (appendix three).

2.2.3 Audit training requirements

To obtain a practicing certificate and audit qualification, the accounting bodies have set guidelines for their members. For the Association of Chartered Certified Accountants (ACCA) all audit competences must be achieved and the time summary should show that the member has spent at least 30 percent of his or her working time over the two-year post-membership period on audit work (ACCA, 2008). While to obtain a practising certificate with the Certified Public Accountants (CPA), you must have three years experience supervised by a registered auditor, two of which must be post admission to membership (CPA, 2008). The ICAI also require an accountant has obtained at least two years approved post membership experience (ICAI, 2007).

2.3 The audit exemption

A European Union (EU) fourth directive on company law developed the audit exemption in 1978 so that member states had the option of introducing an audit exemption threshold where companies meeting certain size criteria could become exempt from the legal requirement to have an independent audit. Private companies can avail of the audit exemption while no public company is eligible for the audit exemption. (ICAEW, 2006b)

To avail of the audit exemption, a company must meet several criteria. The current maximum thresholds allowable under EU law are a turnover of €8.76million and a balance sheet total of €4.38million. However, audit exempt companies, are still required to maintain proper books of account and prepare a full statutory set of accounts, which give a 'true and fair' view of the state of affairs of the company (ICAEW, 2001).

Some companies decide to continue to avail of an audit even when they meet the criteria for the audit exemption. Tauringana and Clarke (2000) present two hypotheses, managerial share and gearing, as to why companies would continue to have an audit. While a number of third parties connected with the company may still require an audit to be completed as loan contracts or overdraft agreements may require the company to

present audited accounts each year (Kenny, 2005). Certain groups of SME's will still require a report by registered auditors by legislation, for example regulated entities such as insurance companies, solicitors (handling clients monies) and companies being sold (ICAEW, 2004).

2.3.1 Justification of the audit exemption

Various justifications for the audit threshold have emerged. Many small companies are owner-managed businesses where there is little or no separation between ownership and management. In such circumstances, the case for retaining a mandatory audit requirement is less persuasive if the primary purpose of the audit is simply to protect the interests of the shareholders and assist them in assessing the performance of managers where the roles are spilt (Chambers, 2006; ICAI, 2006a). Therefore, the regulatory cost of protecting the public interest through the statutory audit may have started to outweigh the benefits to the public in certain market segments (ICAEW, 2006a). The ICAI (2006a) suggests that the audit is only one means of providing assurance and other forms may be more cost efficient and may better fulfil the needs of third parties.

The researcher agrees with the literature that states where there is an overlap of management and ownership the need for a mandatory audit is not as crucial. However, the researcher feels that where a company has limited liability, and therefore is subject to public interest, the company should be responsible for providing some level of assurance. The researcher also agrees with the ICAI (2006a) who states the audit is only one means of providing assurance and other forms would be less costly for small companies and still fulfil the needs of third parties.

2.3.2 Global developments

The audit exemption has undergone many changes internationally. South Africa is currently revising their Companies Act and it is expected that the audit exemption will be introduced in the near future. Conversely, Australia currently has an audit exemption in

place and they are looking at the possibility of increasing their thresholds. Denmark, Finland, Greece, Italy and Sweden, have retained the audit requirement for all companies. However, they appear to be increasingly under pressure to exempt small companies with several of the Nordic countries considering the possibility of implementing audit thresholds. (Dingli, 2006)

The UK has availed of the audit exemption since 1994. Recently, the UK government has decided to take advantage of the option to raise the thresholds to maximum levels with a turnover threshold of £6.5million and a balance sheet total £3.26million. It is expected this will exempt approximately 6,100 additional companies when the exemption comes into effect for financial years starting on or after 6 April 2008 (Perrin, 2008) and the Business Enterprise and Regulatory Reform (BERR) expects savings of £35million per annum based on the median audit fee of £5,000 (Iwasaki, 2007). The Professional Oversight Board (POB) (2006a) conducted research in the UK in 2006, which shows the overwhelming majority of small companies (890,000) took advantage of the audit exemption while there were approximately 180,000 small companies who, though eligible for audit exemption, continued to have 'voluntary' audits.

2.3.3 Ireland

Ireland first availed of the audit exemption in 1999, 20 years after the audit exemption was first introduced as an option by the EU. The Companies (Amendment) (No.2) Act, 1999 permitted exemption from the statutory audit requirement for companies with a turnover of less than €317,000. The thresholds were revised in 2003 and increased to €1.5 million. (ICAI, 2006a) However, even at this level, Ireland was still significantly behind its EU counterparts, especially Northern Ireland (NI), who had increased their audit exemption threshold to the maximum permitted by the EU Directive (ICAI, 2006a). Consequently, calls were being made by the accounting bodies to raise the thresholds to the maximum permitted, as it was felt that the existing thresholds were having an adverse affect on Ireland's economy. ICAI President James Hunt believed that Irish companies were at a serious disadvantage compared to their UK competitors (ICAI, 2003).

Therefore, in 2006, the Investment Funds, Companies and Miscellaneous Provisions Act significantly extended the relevant financial thresholds, which brought Ireland into line with the other European countries (ICAI, 2006b). The increase in the audit exemption thresholds followed a recommendation by the Small Business Forum (SBF), which was established in 2005 to look at the environment of SME's. It recommended that the audit exemption threshold limits should be increased to the maximum allowable under the EU law, which at that time was €7.3million turnover and €3.65million balance sheet (SBF, 2006). The recommendation was implemented through Section 9 of the Act, which came into effect on 24 December 2006 (ICAI, 2006b). However, with the UK deciding to avail of the new thresholds, our smaller companies will again have to endure a disadvantage, unless, the Irish Government decides to follow suit. A report by the Organisation for Economic Co-operation and Development (OECD) states that EU figures suggest that some 93.7 percent of Irish companies would be eligible for audit exemption if the new thresholds apply (OECD, 2007). The requirements for obtaining an audit exemption are outlined in table 2.2.

Table 2.2: Requirements of audit exemption:

Turnover does not exceed €7.3million
The balance sheet total (i.e. fixed and current assets) does not exceed €3.65million
The average number of employees does not exceed 50
Companies to which the 1986 Companies (Amendment) Act applies
The company is not a holding company or a subsidiary or limited by guarantee, does not carry out insurance services, is not regulated by the Financial Regulator, is not a charity or a company limited by guarantee
The company will file its current and previous annual returns on time
There has been no written objection to the entitlement to the audit exemption by shareholders holding 10% or more of the total voting rights

The increase in the thresholds was widely welcomed by the accounting bodies; with the ICAI director Aidan Lambe, stating the ICAI very much welcomed the move, as the

increase in the thresholds would liberate smaller companies from the burden of a statutory audit (ICAI, 2006b). While a survey of CPA practitioners found that 97 percent of respondents welcomed the Minister's decision to increase the audit exemption thresholds and that 80 percent of practitioners expected that more than 80 percent of their corporate clients will no longer need an audit under the new thresholds. Worryingly a further 32 percent of the CPA practitioners expected to move away from providing audit services completely. (Heaphey, 2006)

The ICAI (Lambe, 2007) emphasises that 2008 represents the first year when many companies will decide to dispense with the requirement to have a statutory audit. They also raise the question whether external users, such as, bankers, creditors, and investors, will require them to have an audit or will some other, less costly form of assurance be appropriate (Lambe, 2007).

The researcher feels the audit exemption has liberated smaller companies, however the researcher is concerned that no study has been conducted, to analyse the impact such actions will have on the auditing industry, especially on the smaller and the mid-tier accounting firms. The auditing sector alone has undergone major changes; therefore, the researcher feels the possibility of the broadening of auditing activities for Irish accounting firms is a viable proposition.

2.4 Developments in the auditing sector

There is an increased need for companies to replace historical, periodic, cost based, financial information and data with real time, continuous data, which is forward looking, value-based information including financial and non-financial information. Worldwide countries are looking at their current system of auditing of SMEs and looking into suitable alternatives to the current situation (Dingli, 2006). Internationally new services have emerged for various reasons but the majority of countries have taken these steps in order to safeguard the industry and its employees due to the decrease in the demand for audits.

Various literature has been written on this area such as research conducted by Gramling *et al.* (2001) who recognises that the market for auditing services is changing, and new audit methodologies are emerging for new services being offered. Chambers (2006) concludes that assurance is being sought not only for audits of financial statements but of processes too. While Maijoor (1998, cited O’Leary, 2004), also finds that the assessment of internal controls structures, such as systems reviews, risk assessments and control evaluations are a growing business area for audit firms. Other areas where expansion of services is expected are outsourced operations and compliance with contractual agreements, while the review engagement has proved popular in many countries. Such expansions pose both opportunities and challenges for the accounting profession.

Literature has shown that audit firms are now offering a vast array of non-audit services which Gramling *et al.* (2001) describes as relevance enhancing services. Though the auditing profession appears to be diversifying into other areas Fearley *et al.* (2000) feels that there may be a lack of availability of auditors for small companies and those who require other assurance, due to evidence that indicates a reduction in the number of registered auditors.

International standard-setters are increasingly becoming alert to the needs of SMEs. John Kellas, chair of the International Auditing and Assurance Standards Board (IAASB), declared that the board had the intention to explore the concept of an alternative assurance service for smaller entities that would be valued by them and less onerous than an audit. In its consultation paper on its proposed strategy for 2009-11, the IAASB acknowledge today’s environment where professional accountants are asked to provide some form of non-audit assurance service where an audit is no longer mandatory. The strategy goes on to suggest exploring the concept of an alternative assurance service for SMEs, and possibly developing related standards. (IAASB, 2007)

The researcher agrees with Gramling *et al.* (2001), who feels that the market for auditing services is changing. As well as agreeing with Chambers (2006) and Maijoor (1998, cited O’Leary, 2004) who feel that an opportunity exists for providing assurance on internal

controls, system reviews and risk assessments, however the researcher is concerned at the lack of evidence available to date regarding the uptake of these services in Ireland.

2.4.1 Global developments

Global developments have led to the restructuring of the auditing sector in many countries, and many more, which are struggling with the current rigorous systems in place, are taking steps to make such amendments. One such example is the Institute of Chartered Accountants in Australia (ICAA) who commissioned a report in 2006, to consider whether present auditing standards continue to be applicable to SMEs, and to look at possible alternatives to the audit. The paper concludes that the accountancy profession should consider increasing the audit threshold for small companies and those non-listed companies that are above the audit threshold should have the choice between an audit and a review (Dingli, 2006). However, Australia's accountants can already offer a full range of services ranging from environmental analysis, strategy formulation, strategy implementation design and monitoring, and strategic cost management (Parker, 2001).

The South African Institute of Chartered Accountants (SAICA) also issued a report in 2006, entitled 'The Audit of Small Companies'. The South African Department of Trade and Industry (DTI) are currently revising their Companies Act and it is expected there will be the removal of the small company audit. Another approach that South Africa is investigating is to audit all companies, but to allow relaxation where all shareholders agree in writing. (Dingli, 2006)

The Nordic countries have also taken steps to reassess the audit procedures that are in place. A project group was set up in 2006 composed of representatives from all the Nordic institutes for public accountants. This report found that several of the Nordic countries were discussing the possibility of implementing audit thresholds. If such an occurrence prevails, the institutes are recommending that shareholders be required to decide whether an audit or a review will be performed where a company meets the audit

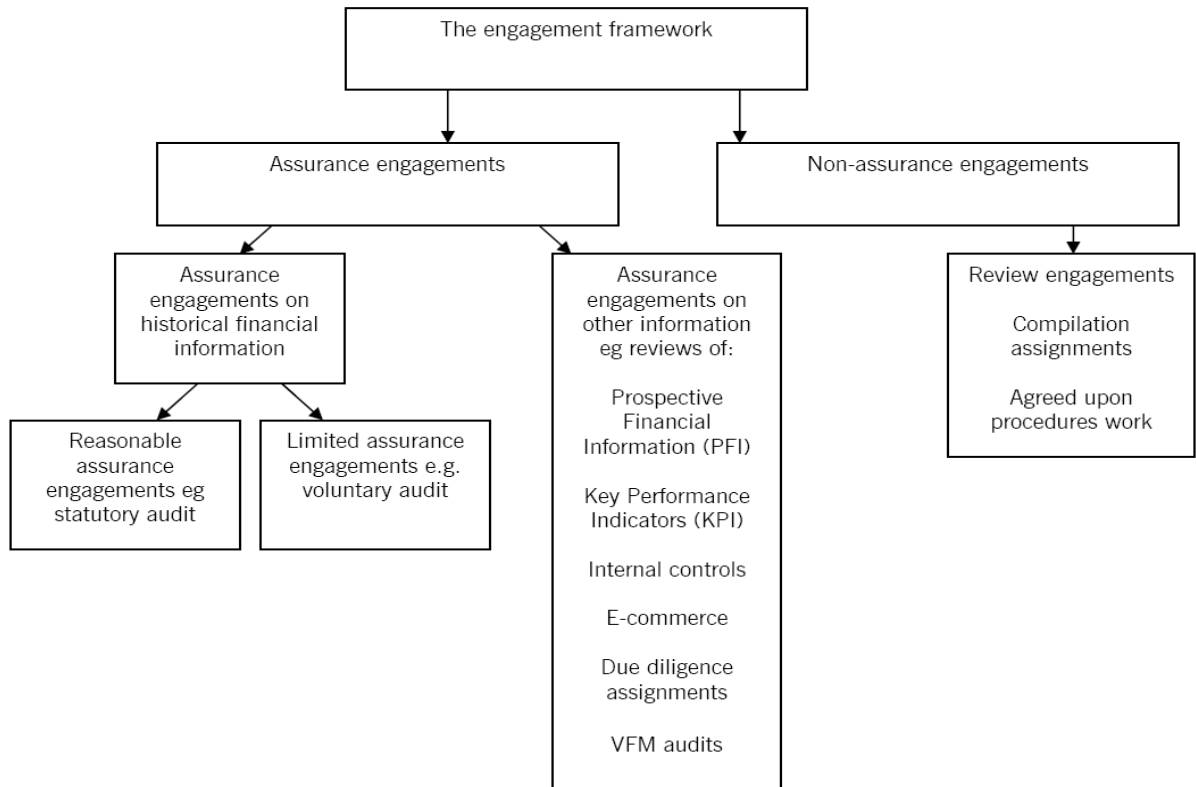
exemption thresholds. The paper also adds that a review may be supplemented with an audit of selected items in the financial statements if a company needs a higher level of assurance on parts of the financial statements. (Dingli, 2006)

In 2004, the IAASB issued a revised assurance framework (figure 2.1), which defines and describes the elements and objectives of an assurance engagement. The IAASB define an assurance engagement as *'an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.'* (Weaver, 2007, p.1)

ISAE 3000, assurance engagements other than audits or reviews of historical financial information, was its first assurance standard. It covers engagements of internal controls and systems reviews, e-commerce, key performance indicators, value for money reviews, due diligence reviews, and prospect financial information. The IAASB emphasis ISAE 3000 was issued in response to the increasing demand for assurance reports on environmental, social and sustainability reports, information systems, internal control, corporate governance processes and compliance with grant conditions, contracts and regulations (ICAI, 2004). The ICAEW have also issued a practical guide to using ISAE 3000 who confirm demand appears to growing, particularly in the areas of corporate responsibility and public interest concerns, because of legal and regulatory changes and demands from investors and investment analysts. However, they suggest demand for external assurance reports on non-financial information is limited at present but feel this could grow in response to recent market and regulatory changes (ICAEW, 2008).

The IAASB's Small and Medium Practices Committee (SMPC) strategic operational and plan for 2007-2010 states that recognising the trend for exempting SMEs from an audit, the committee is insisting that the IAASB investigate the role and nature of alternative assurance services (SMPC, 2007).

Figure 2.1: The revised assurance IAASB framework



(Weaver, 2007, p.2)

The researcher feels that internationally there have been significant developments towards the broadening of the auditing sector and the introduction of alternative services. With several countries, restructuring their auditing sectors for these services it is probable similar steps could occur in Ireland.

2.4.2 The United States and Canada

The 1980's saw the US facing a flat auditing sector therefore the Canadian Institute of Chartered Accountants (CICA) introduced a review service, which positioned itself between the audit and accounts compilation. The review requires the accountant to issue a limited assurance report stating that the accountant is not aware of any material

modifications that should be made to the accompanying financial statements in order for them to conform to the accounting standards. This service is now well established in Canada and as a result, a review service has existed in the US for many years. Reviews are based on management inquiry and analytical procedures applied to financial statement amounts, rather than on the more rigorous requirements of an audit. They have proved popular for public companies in their quarterly financial statements and for private companies who want some assurance. (ICAEW, 2006a)

In the 1990's the American Accounting Association (AAA) and other associations found that, consumers of accounting services were placing much less value on traditional accounting, auditing, and tax preparation services (Parker, 2001). It was felt that the profits accounting firms once experienced from audit services were diminishing and the profession must then accept this decrease of profits or alter its products (Parker, 2001). Therefore, four professional groups addressed the issue of meeting the demands for assurance services, which are outlined in table 2.3.

Table 2.3: Professional groups established in the United States

The America Institute of certified Public Accountants (AICPA) Special Committee on Financial Reporting (Jenkins Committee 1991-1993)
The Sante Fe Assurance Visioning Conference (1993)
The AICPA Special Committee on Assurance Services (Elliott Committee, 1994-1997)
The American Accounting Association's Future Audit, Attest, and Assurance Service Task Force (1994-1997)

The committees were set up in response to a decline in the market for audits and to find suitable substitutes for the audit. The Elliott committee, lead by Robert Elliott established future assurance services to be offered by the accounting profession. It identified hundreds of new assurance services and developed business plans for several assurance services with potential revenues (Burke *et al.*, 2003) providing services not only on

accounting information but on many other types of information that people need in order to make decisions (table 2.4). Assurance services can be customised to information needs of decision makers in specific circumstances, therefore being more responsive and flexible to user needs.

Using the Elliot committee’s research, CICA and AICPA jointly developed the first new assurance services, WebTrust, ElderCare and SysTrust (Burke *et al.*, 2003). However, despite the major advancements in broadening services, a study of US CPA firms found that assurance services represented only a minor proportion of firm revenue in the 1990s. However, 40 percent of firms surveyed in 1998 predicted that their assurance services would increase by 2003 (Parker, 2001).

Table 2.4: Summary of assurance services developed by Elliott committee

Comprehensive risk assessment (risks facing organisation, internal, external or regulatory)
Business performance measurement (assurance on financial and nonfinancial measures to evaluate efficiency and effectiveness of activities)
Electronic commerce (promote integrity and address risks and security of electronic transmissions, documents and supporting systems WebTrust)
Systems reliability (information is reliable, systems designed and operated to produce reliable information about customers, suppliers etc. SysTrust)
ElderCare services (assurance of healthcare providers for adult children)
Policy compliance (ensuring a company applies with its own policies, i.e. equality among employees, environmental, and customer service)
Trading partner accountability (suppliers, customers etc. have appropriately fulfilled their responsibilities)
Mergers/Acquisitions (Looks at records and practices to potential acquisition, look at acquisition risks, appropriateness of accounting methods, value of assets or the adequacy of its systems and controls)

The researcher feels that the developments in the US are credible, with several countries taking similar steps, such as the UK and Nordic countries. The review engagement has proven popular in other countries, and therefore the researcher feels a market may exist for it and attestation services. The current market conditions could present an opportunity for SysTrust and WebTrust to be provided in Ireland, as could the ElderCare service with the recent scandals within the services for the elderly.

2.4.3 The United Kingdom

The UK experienced a significant impact from the rise of the audit exemption to £5.6m in 2004. The increase in thresholds resulted in a significant drop in the number of companies being audited and hence a significant decline in audit income (Iwasaki 2006). A DTI report showed that 883,000 audit exempt accounts were filled for 2005, while a report by the POB showed only 180,000 companies chose to invest in an audit for the same period (ICAEW, 2006a). Up until 2004, 2,720 accountant firms ceased to be registered auditors and this was before the threshold had increased to £5.6 million (ICAEW, 2004).

As a direct result in the decline in audit income, the ICAEW launched a consultation on the financial information requirements of businesses that fall below the statutory audit threshold, which led to the development of a new service termed ‘assurance services’ that ICAEW accountants can offer to their clients. The new assurance service positions itself between the statutory audit and accounts compilation and can be offered to audit-exempt companies on a voluntary basis (ICAEW, 2006d). Accountants give a negative form of conclusion on unaudited financial statements and the accountant is not expected to express an opinion on the adequacy of the company’s systems, fraud detection, compliance with laws and regulations and proper internal controls (ICAEW, 2006e).

The ICAEW choice to take such action was a surprise to a number of authors including Dingli (2006) who points out that in 2001 the government had already looked at an alternative form of assurance for audit-exempt companies, and discarded the idea, as it

was not deemed as a worthwhile replacement for a statutory audit. Many welcomed the initiative, including the British bankers association who believes that in the absence of audited accounts, assurance reports would assist customers when they approach their bankers for additional funding (Iwasak, 2006). However, some accountants do remain sceptical that a market exists for such services. There is also a concern that with the confusion that already exists between an audit and accounts compilation that the introduction of a new service would add further to the confusion (Iwasaki, 2006).

The ICAEW consulted with key stakeholders including financial institutions on the assurance service. Two key views were established. Some suggested that companies still had the option of a voluntary audit if they needed assurance and questioned why another service was needed. Others welcomed the service and were supportive of the initiative in particular for companies that have already decided to opt out of an audit (ICAEW, 2006a). The ICAEW also commissioned an independent research to understand the views of smaller companies on the assurance service and the nature of the potential market. Approximately half of the respondents showed an interest in availing of the ICAEW assurance services. However, concerns were raised over the credibility that financial institutions would give these assurance reports and the potential confusion of the negative wording of the report in comparison to the audit report. (ICAEW, 2006c)

Despite the controversy surrounding the ICAEW initiative by writers such as Dingli (2006), the researcher feels the evidence presented internationally proves that such a service is viable. However since it is a voluntary service it may not be attractive to companies and there may be concerns regarding the source of the information on which accountants are performing analytical reviews, therefore destroying the credibility of the reports. The researcher feels the integrity of management would be a major concern for those providing such services, as would be the concern over liability.

2.4.4 Ireland

In 2003, a report was conducted to identify the accounting and advisory needs of SME's in Ireland. It aimed to establish if a market exists for noncompliance and business advisory services to be provided by accounting firms to SME's. The findings suggest that this market does exist but it remains underdeveloped. Doran (2003) notes that in some cases, accounting practices are offering non-compliance services such as consulting to their clients but are not successful in selling them. While, 42 percent of those surveyed state they did not require the services on offer, only 19 percent of the sample state cost was the reason for not availing of services and 17 percent state time was an issue. (Doran, 2003) This is promising when identifying whether a market exists for non-compliance services, as the majority of clients are willing to spend the time and money to improve their performance.

A survey by the ICAI in 2006 found significant support for the introduction of some form of alternative external assurance assignment other than the audit. A suitable qualified accountant bound by ethical codes and regulated by a supervisory body would conduct the engagement. From this survey, the ICAI recommend other forms of assurance should be introduced, which are not a full statutory audit such as a 'review engagement'. (ICAI, 2006)

The researcher agrees with Doran (2003), who feels a market may exist for providing non-compliance services and feels the review engagements are a suitable form of assurance for SMEs, which could easily be introduced in Ireland. Reviews are a practical alternative to an audit for companies that are exempt from the audit and still want to add a certain amount of credibility for stakeholders.

2.5 Conclusion

This chapter has considered how the audit exemption has emerged and developments in the auditing sector in Ireland and internationally. This chapter has allowed the researcher

to establish what knowledge already exists in the subject area and identify a worthy opportunity for further research. Chapter two has identified a gap for research to be conducted regarding these areas relating to Ireland. Therefore, the researcher has undertaken research methodology research in chapter three.

Chapter 3

Research Methodology

3.1 Introduction

This chapter identifies, explains and justifies the methodology adopted during this study. This will include the research process used, data collection methods used, data analysis methods used and the limitations encountered during this research. Saunders *et al.* (2007, p.5) defines research as '*Something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge.*' Whereas Colin and Hussey (2003, p.55) concludes that '*Methodology refers to the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data.*' Therefore, research is an investigation into an area or problem, while methodology is the approach to conducting research.

3.2 Research philosophy

Research philosophy depends on the way the researcher thinks about development of knowledge and this then affects the way the researcher conducts their research. The research paradigm is the general approach to research. Collis and Hussey (2003, p.46) 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 literature namely 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.*, 2007).

3.2.1 Positivism

Positivism is based on the concept that similar studies should be comparable and achieve the same results where there is one truth, and one truth only. Positivism is a structured approach to collecting data, which is analysed and interpreted. Saunders, *et al.* (2007) suggests that for a research philosophy to reflect the principles of positivism 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, p.32) Positivism is highly criticized among literature with Collis and Hussey (2003) listing the main criticisms of positivism in table 3.1.

Table 3.1: Criticisms of positivism

It is impossible to treat people as being separate from their social context’s 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 misleading

3.2.2 Interpretivism

Interpretivism is based on the concept that reality is socially constructed rather than objectively determined. It assumes that the social world is continually changing (Hussey J. and Hussey R., 1997), and focuses on understanding meanings rather than measuring facts (Saunders *et al.*, 2007). Collis and Hussey (2003) identify a number of features of this approach. It tends to produce qualitative data, it uses small samples, reliability is low,

validity is high and it facilitates the understanding of how and why. Saunders, *et al.* (2007) highlights a number of weaknesses of interpretivism research as seen in table 3.2.

Table 3.2: Criticisms of interpretivism

Data collection can be time consuming
It can be perceived as less credible by 'non-researchers'
Researcher must be aware that patterns may not emerge
Analysis can be difficult due to its qualitative nature
Observer bias can occur

3.2.3 Research philosophy adopted

Selection of the correct philosophy is crucial to the research outcome, and is determined by the way in which the researcher thinks about the development of knowledge. Justification of the researcher's philosophy will depend on the nature of the researchers aims and objectives and their desired outcomes. After studying the literature, the researcher has concluded that a mixed method approach will be used as both philosophies will be used in this research. Semi-structured interviews are interpretative in nature and questionnaires are of a positivistic nature as the results can be analysed into percentages. The study involved three semi-structured interviews with the researcher interpreting the opinions of the interviewees in the analysis and findings chapter four. Interpretivism allows the understanding of why and how data is collected however; the findings are open to the researcher's observer bias. Questionnaires are quantifiable in nature by the use of yes/no answers in their structured nature, therefore assuming the role of an 'objective analyst'.

3.3 Research focus

Three classifications of research can be described, which are exploratory, descriptive and explanatory.

3.3.1 Exploratory research

Robson (2002, p.59) states that exploratory research is a valuable means of finding out, *'what is happening; to seek new insights; to ask questions and to assess phenomena in a new light'*. Saunders, *et al.* (2007) highlights the main advantage of exploratory research as its flexibility and ability to adapt to change, therefore allowing the researcher to change the direction of the research because of new data. Hair *et al.* (2007) describes exploratory research as when the researcher has little information to discover new relationships, patterns, themes and ideas.

3.3.2 Descriptive research

Descriptive research may be an extension of exploratory research and its objective is described by Robson (2002, p.59) as *'to portray an accurate profile of persons, events or situations.'* Hair *et al.* (2007) states that descriptive research is designed to obtain data that describes the characteristics of the topic of interest in the research; such as the Who, When, What and How.

3.3.3 Explanatory research

Saunders *et al.* (2007) concludes that explanatory research examines casual relationships between variables and studies a situation or problem in order to explain the relationship between variables. This research involves focusing on a specific problem or situation in order to identify relationships between key variables.

3.3.4 Research focus adopted

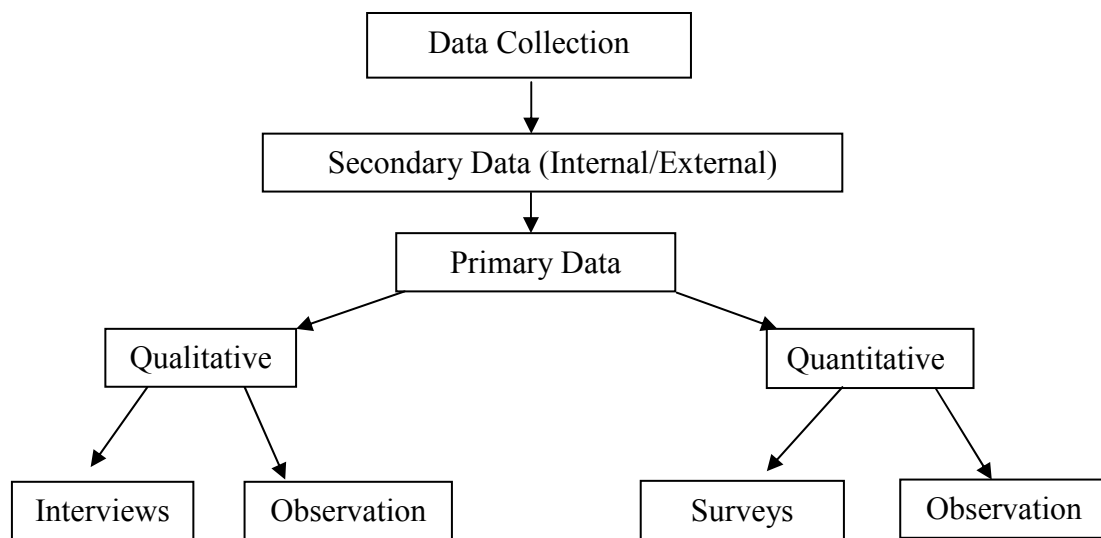
This research can be described as exploratory in nature as it aims to ascertain the views of the top 20 accounting firms and the accounting bodies on the audit exemption. This research can also be described as descriptive in nature, since it involves an analysis of the

evolution of the audit exemption and possible alternatives to the audit, in Ireland and worldwide through the primary research and relevant literature.

3.4 Data collection

Several data collection methods are available to a researcher. The type and nature of data to be collected depends on the nature of the study as well as the researcher objectives as can be seen in figure 3.1. However, for the purpose of this study the researcher will concentrate on the most common methods of data collection, which are questionnaires and interviews.

Figure 3.1: Primary data collection methods



(Hair *et al.*, 2007, p.192)

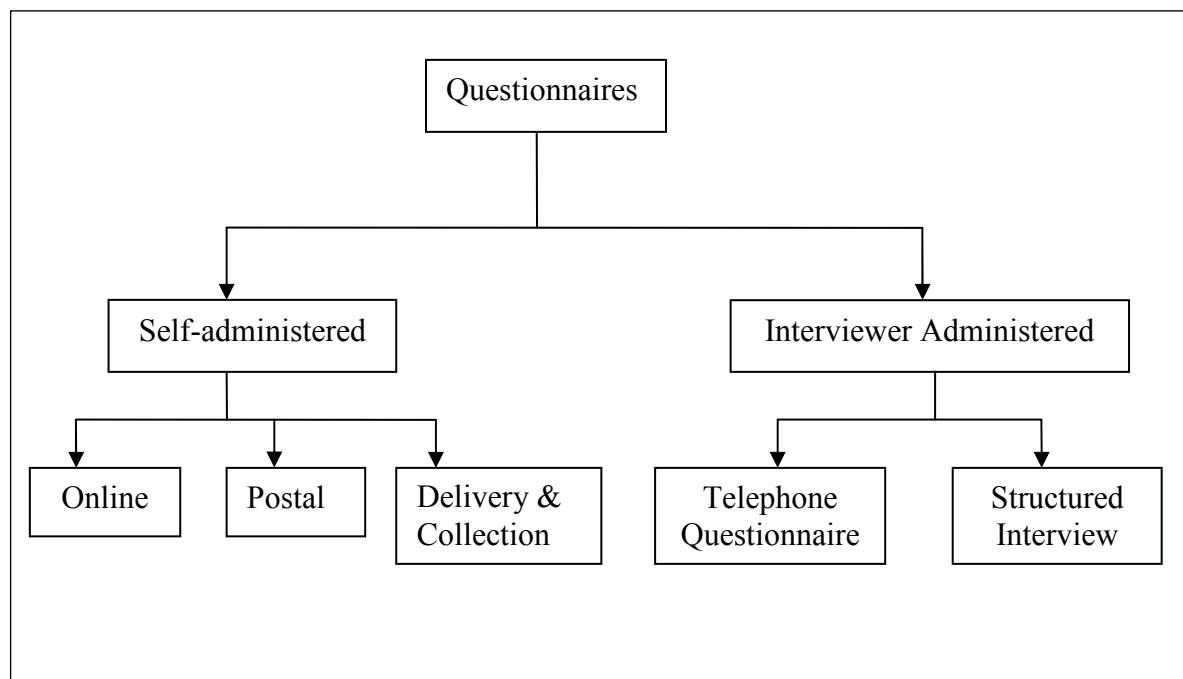
3.4.1 Questionnaires

DeVaus, (2002, cited Saunders *et al.*, 2007, p.354) refer to questionnaires as ‘*a general term to include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order*’. Questionnaires can take various forms, as outlined in figure 3.2. Saunders *et al.* (2007) outlines a number of factors that

influence the researcher choice of questionnaire, which are related to the research questions and objectives. These are:

- The characteristics of the respondents
- The importance of respondents answers not being contaminated or distorted
- The types and number of questions to ask
- The sample size

Figure 3.2: Types of questionnaires



(Saunders, *et al.*, 2007, p.357)

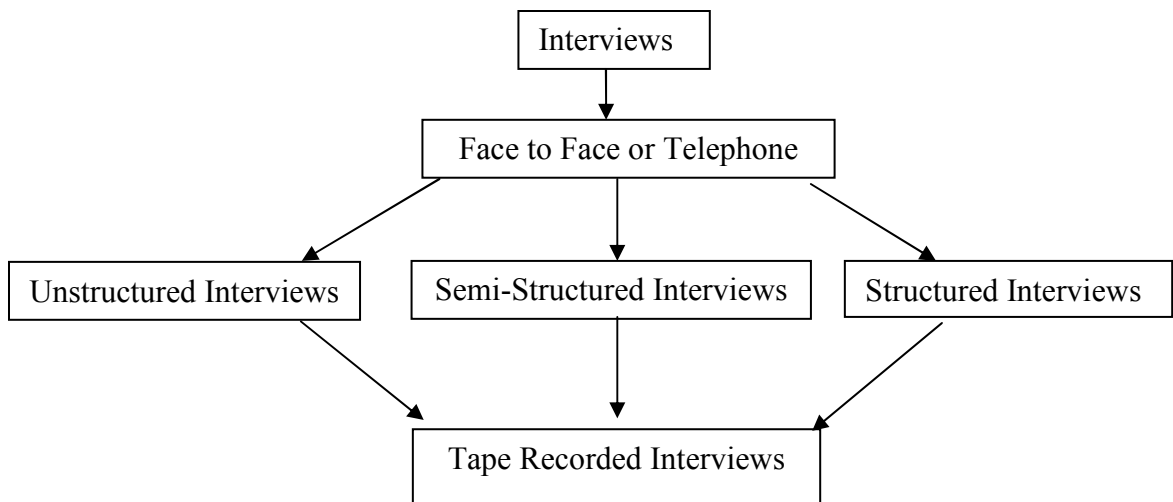
Questionnaires are widely used and they may seem simple but are by no means simple to use (Easterby-Smith *et al.*, 2002). Hair *et al.* (2007) identifies web-hosted internet surveys as flexible, increased response rates and cost effective. Brennan (1998) states some of the advantages of questionnaires, which are respondents, can answer questions freely and unhampered by bias. Conversely, questionnaires have limitations, as only

straightforward questions can be asked which reduces depth and the researcher cannot be sure the questionnaire will be answered (Brennan, 1998).

3.4.2 Interviews

An interview is a purposeful discussion between two people, which can be an effective way of obtaining valid and reliable data (Kahn and Cannell, 1957). It is where the researcher ‘speaks’ with the respondent directly. Hair *et al.* (2007) outlines some of the advantages of interviews; namely, they are helpful for gathering complex or sensitive data, the researcher can obtain feedback and can increase participation. Interviews can vary from being highly structured to highly unstructured and three types of interviews are accepted in literature, as seen in figure 3.3.

Figure 3.3: Types of interviews



3.4.2.1 Unstructured interviews

Unstructured interviews aim to get past short answers to establish the true inspirations and depth that influence a person’s opinion. Issues and topics are open for discussion, giving the interviewee the opportunity to speak freely. Sample sizes tend to be small allowing for one to one interviews, which can be time consuming. Interpretation of

results is also time consuming as there is no predetermined questions, but the researcher must ensure they have a clear idea of what areas they want to explore. (Saunders *et al.*, 2007)

3.4.2.2 Semi-structured interviews

Semi-structured interviews aim to evolve and adapt with the interview as it progresses. The researcher will have a list of predetermined questions or topics which they would like to cover, however these may vary from interview to interview. The order of questions may vary depending on the flow of the conversation, as well as the number of questions with new questions arising and other questions may be omitted. This occurs from the answers given by the interviewee or a suggestion by either the interviewee or interviewer. (Saunders, *et al.*, 2007)

3.4.2.3 Structured interviews

Structured interviews are based on a predetermined list of questions. This stringent approach involves little interaction between the interviewer and interviewee, whereby the interviewer reads out the questions and then records the response on a standardised schedule with pre-coded answers. (Hair *et al.*, 2007)

3.4.2.4 Tape-recorded interviews

Tape-recorded interviews involve the interviewer recording the interview so that it can be listened to later. Saunders, *et al.* (2007) states that the researcher should record an interview as soon as possible 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 tape-recording interviews are outlined in table 3.3.

Table 3.3: Advantages and disadvantage of tape-recording an interview

Advantages	Disadvantages
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.*, 2007, p.334)

3.4.3 Secondary research

This involves a detailed examination of books, academic journals, articles and any other relevant literature.

3.4.4 Data collection methods adopted

The researcher used a mixed method approach using semi-structured interviews and questionnaires in order to meet the aims and objectives of this research. Creswell (2003, p.208) concludes that mixed method procedures is '*employing the data collection associated with both forms of data*'. When choosing a mix method strategy Creswell (2003) outlines a number of decision choices for the researcher, such as implementation, priority, integration and theoretical perspectives. The researcher used a combination of qualitative and quantitative data by collecting qualitative information in semi-structured interviews and quantitative information through questionnaires.

3.4.4.1 Semi-structured interviews

In order to discover the views of the three accounting bodies in Ireland, the researcher first conducted a series of three semi-structured interviews (appendix four). The researcher selected semi-structured interviews as the researcher felt the flexibility of the interview would be of an advantage to both them and the interviewees. All the interviewees were selected by taking account of their knowledge and positions, so that they were of a qualified nature to participate in the interview. The questions were developed from a comprehensive study of literature on the topic and with the help of a member of the ICAEW who have undertaken a similar study.

Due to the limited resources, and the location of the researcher, the interviews were conducted by telephone in early June 2008. Each interview lasted from between 30 to 45 minutes in duration and was tape recorded with permission of the interviewees. Each interview was transcribed immediately after the interviews in order to avoid misinterpretation by the researcher. Several questions were developed in an open-ended manner to enable the researcher to seek insights and probe answers. These questions were pilot tested with a member of an accounting body, from which minor adjustments and clarification of questions were made. Each interviewee was also given the option of receiving the interview guidance prior to interviews so that interviewees would feel better prepared for the interviews and all interviews were arranged on a pre-determined time and date. The interviews were carried out before the questionnaires, to allow the questionnaire to be adapted and new questions added based on the results of the interviews.

3.4.4.2 Questionnaires

A questionnaire was used in order to investigate the opinions of the top 20 accounting firms on the audit exemption and its impact on their accounting firm. When designing questions, Saunders, *et al.* (2007) points out that questions can come from the following sources:

- Adoption of questions used in other questionnaires
- Adaptation of questions used in other questionnaires
- Development of researchers questions

The researcher developed their own questions from a comprehensive study of literature and the results of the interviews with the accounting bodies. Each question was designed in such a way to eliminate any possible ambiguity and to ensure this, the questionnaire was pilot tested with a representative of the top 20 accounting firms, the researchers supervisor and the researchers colleagues. A copy of the questionnaire along with the covering letter can be found in appendix five and six.

The researcher conducted an online questionnaire, which was distributed to the respondents directly via email. This was followed by two reminder emails. When completed a 50 percent response rate was achieved in comparison with an average expected rate of 30 percent (Saunders *et al.*, 2007). The advantages of online questionnaires are its low cost, speed of response, ease of processing collected data and assurance that the right person has responded. However, designing an online questionnaire is time consuming and difficult. The objective of the researcher's questionnaire was to enable respondents to fill out the questionnaire smoothly and logically. As the researcher had surveyed the whole population according to Saunders *et al.* (2007) this was a census of the population.

The covering letter explained the purpose of the research and stated who the researcher was. The questionnaire was broken down into two sections, section A of the

questionnaire gained demographic information of the respondents, while section B gained the opinions and insights of the respondents.

Due to time and financial constraints of the research, the researcher felt questionnaires were the best option to give the most reliable and specific information. However, questionnaires have limitations, such as a low response rates and the respondent's poor knowledge of the topic. However, the researcher tried to overcome the low response rate by using online surveys, keeping the questionnaire simple with predominately Yes/No responses, keeping the questionnaire defined by making the questionnaire as quick as possible to answer and offering a financial incentive of a donation to charity for every response received by a certain date. The researcher also sent the questionnaire to the audit partners directly and the researcher asked the respondent to state their position within the organisation in order to validate respondents having adequate knowledge of the area.

3.4.4.2.1 Questionnaires research population

Once it was decided to use a questionnaire as a tool, a sampling frame was decided. Due to time and financial constraints, not all accounting firms could be surveyed. The researcher felt that the top 20 accounting firms were those who would be most affected by a diminishing auditing sector as literature highlighted that auditing made up a sizeable proportion of their income, 40 percent for the 'Big 4' and 45 percent for the mid-tier accounting firms. It is also felt that these companies would have the greatest insight into the possibility of providing alternative services as they have the largest base of clients. The development of the researcher's sample of the top 20 accountancy firms was conducted by fee income in Ireland and can be seen in appendix one.

3.4.4.3 Secondary research

The researcher examined books, academic journals, articles and any other relevant literature to this research. This research required a structured content analysis of audits,

the legislation surrounding the introduction of the audit exemption, the international developments and an analysis of assurance services.

3.5 Data analysis

The data collected from the questionnaires was analysed using conjoint analysis software, which is used on the internet host website, esurveipro, where the creation of the questionnaires website interface along with its database was created. The researcher had prior experience with the software and used Microsoft Excel to construct tables and graphs for the data analysis chapter and appendices. The questionnaire used yes/no questions for simplicity. A transcript was produced for each of the interviews and the interviewee was quoted or paraphrased in the text of the data analysis chapter.

3.6 Limitations of research

This research had the following limitation's which could not be overcome.

- The researcher had limited financial resources, which affected the research process, and the size of population sampled.
- The researcher only had one academic year to complete the research, and therefore not all accounting firms could be surveyed. This is the principal reason why only the top 20 accounting firms were surveyed.
- Questionnaires do not allow the researcher to seek further explanation on some points that the respondent may wish to state.
- A limitation with the interview findings was the researcher's bias, however in order to limit the impact of this happening the interview was tape-recorded and the transcript typed as soon as possible.
- Due to the researcher's location, and financial restraints, the interviews were carried out over the telephone. This means the researcher did not have the ability to read the body language of the interviewees, which can be a valuable source of information.

3.7 Conclusion

The research was conducted in order to investigate the audit exemption and its impact on the top 20 accounting firms. It involved a combination of both philosophies. It also involved exploratory research with an element of descriptive research. The research involved the circulation of questionnaires to the top 20 accounting firms, and three interviews. The results of which are outlined in chapter four.

Chapter 4

Findings & Analysis

4.1 Introduction

Chapter four studies and analyses the results of the research methods adopted. This involved an examination of the questionnaire responses and the interview transcripts in order to ascertain the accounting bodies views.

4.2 Analysis of survey results and interview findings

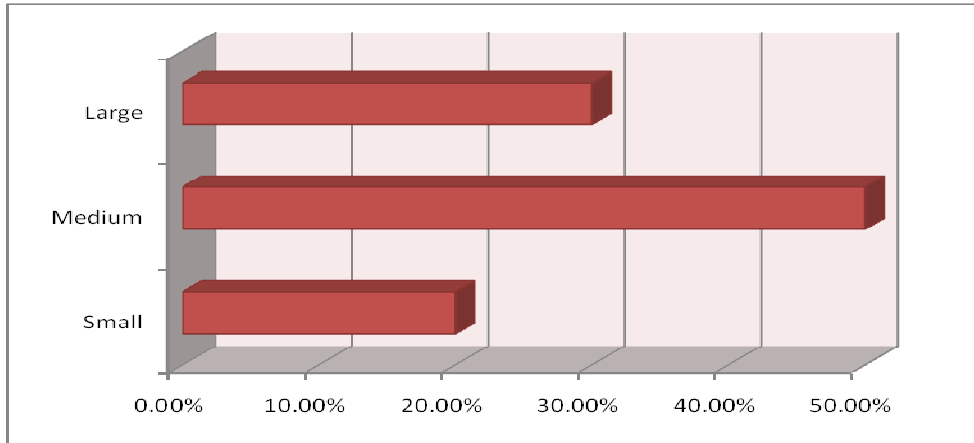
The questionnaires were sent to the top 20 accounting firms of which a 50 percent response rate was achieved which as outlined in appendix 6.1. The main findings will be discussed in chapter four, however all the results from the questionnaires can be found in appendix six.

Semi-structured interviews were carried out with representatives from the three Irish accounting bodies, who were a technical advisor, a director consultant and a practice consultant. The purpose of these interviews was to gain an insight into the accounting bodies' views on the audit exemption and the possibility of introducing assurance services in the Irish market. The interviewees were assured that they would remain anonymous; therefore, they will be referred to as interviewee one, two and three. A list of questions the researcher used as a guideline for the interviews is included in appendix four. The top 20 accounting firms will be referred to as respondents.

4.2.1 Demographic results

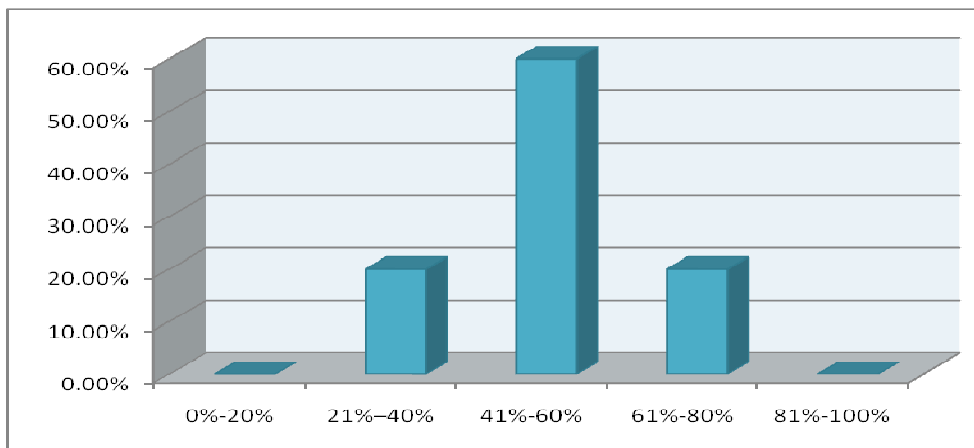
Respondents were asked which clients were important to their accounting firms, surprisingly 70 percent of respondents said small and medium firms, while only 30 percent of accounting firms depended on the larger firms as seen in figure 4.1.

Figure 4.1: What would you perceive to be the most important clients to your accounting firm?



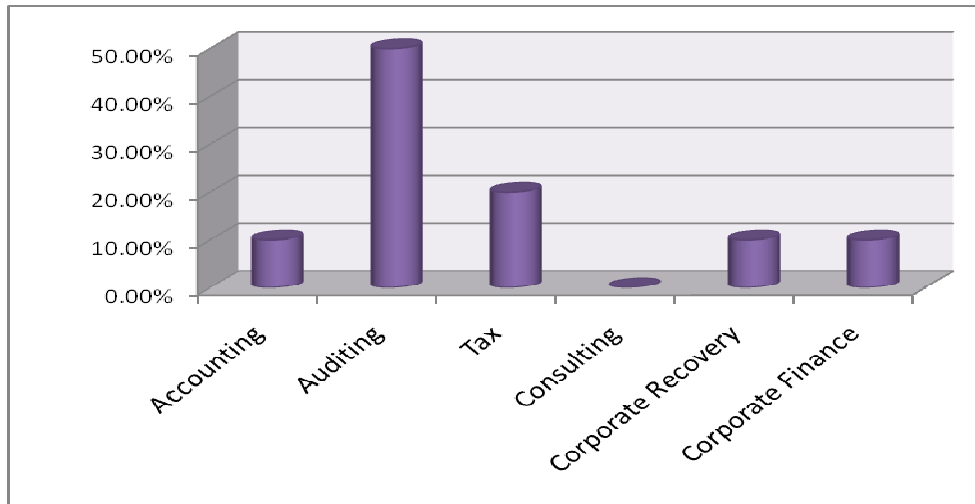
It was also found that the majority of firms (60 percent) had at least 41 to 60 percent of their staff involved in auditing, and no firms had less than 20 percent of their staff involved in auditing (figure 4.2).

Figure 4.2: What percentage of your staff is involved in auditing?



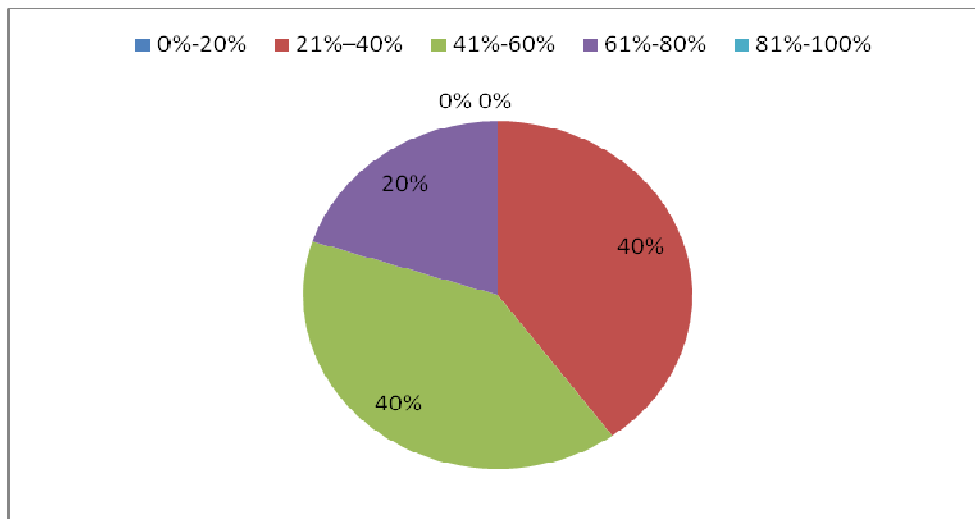
This was supported by establishing in figure 4.3 that the accounting firm's main source of income was auditing, with 50 percent of firms stating auditing provides the most revenue to their firm. This was followed by tax services, which amounted to 20 percent of the total population. Further demographic details are available at appendix 6.2 to 6.4.

Figure 4.3: What service provides the most revenue to your firm?



Results show that 80 percent respondents stated that auditing represented between 21 and 60 percent, therefore amounting to a substantial amount of income for the firms, while the other 20 percent of firms stated that auditing made up 61 to 80 percent. No firms reported that auditing made up less than 20 percent of their revenue. This supports the literature in chapter two, which found that auditing income averaged at 40 percent of the top 20 accounting firm’s total income (figure 4.4).

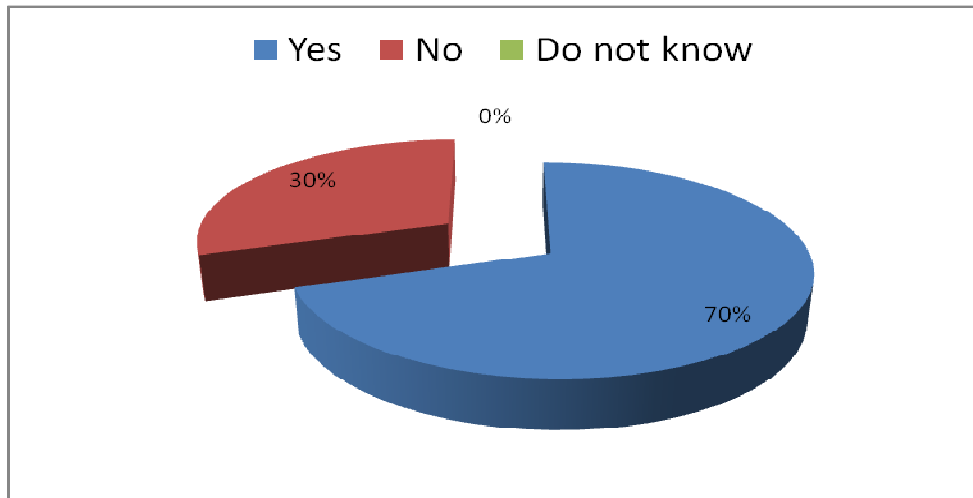
Figure 4.4: What percentage of your income is derived from auditing?



4.2.2 The auditing sector

Figure 4.5 shows that 70 percent of the firms surveyed have felt a move from traditional accounting services such as auditing to other services such as tax planning and financial analysis as can be seen in appendix 6.10.

Figure 4.5: Has your accountancy firm perceived a shift in the accounting environment from traditional accounting services, to non-traditional services?

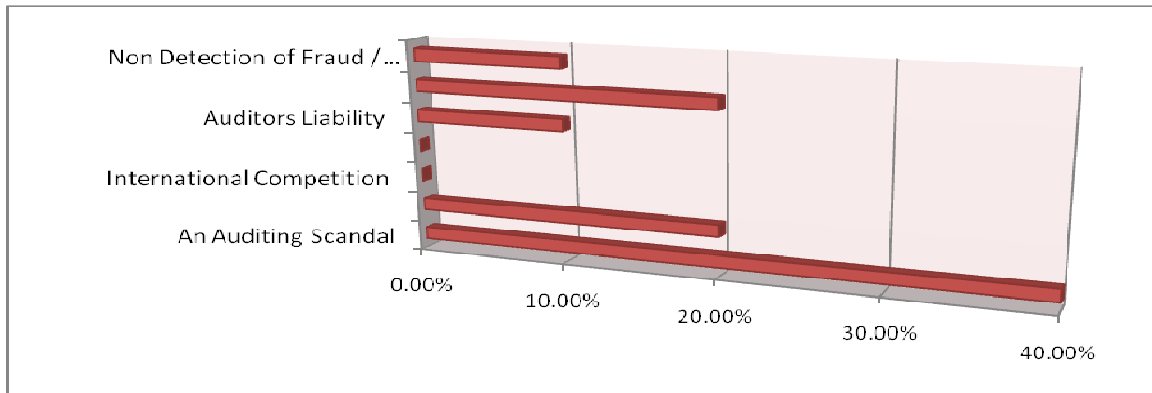


This supports the opinions of the three accounting bodies with interviewee one stating *'Yes and No, certainly the number of audits has gone down considerably...a lot of practices have moved away from accounting and auditing into consulting services and they are doing quite well in it'*. While interviewee two reinforces this by stating *'Yes, that's an evolving process...it is even more so in the last two to three years...there still changing, they are still adapting to change; they are still building and developing non-traditional service.'* Interviewee two agrees saying *'They are still clearing out some of the audit work they still would have had'*. While interviewee three felt *'the skills have widened and depended certainly over the last eight to ten years...the rise in audit exemption threshold has been a strong driver in this but it has also been driven by the need to provide businesses with the services and requirement's which they feel adds value.'*

The interviewees highlighted the audit exemption, monitoring and the audit scandals as having the most significant impact on auditing in the last 10 years. Interviewee one felt *'The largest impact on auditing has probably been the audit exemption because you are going to find a lot of practices now can't train auditors because they have no audits. You have to have at least 30 percent audit work available to trainees to be able to train them in audit.'* Interviewee one also felt that the increased monitoring has *'...driven quite a few them out of the auditing profession'*. They feel both these factors has lead to practices *'...specialising in auditing which will increase the cost of an audit'*. This supports Fearley *et al.* (2000) who feels that there may be a lack of availability of auditors for small companies therefore increasing the cost of an audit. Interviewee two felt the auditing scandals played a major role stating *'Enron of course and the other scandals have impacted very heavily on the audit profession too.'* and *'Maybe that's where it all kind of fed from, the additional monitoring, the new legislation, the introduction of the IAASA; they were all sparked from the Enron crisis.'* Interviewee three agrees stating, *'The international standards on auditing have been one of the most significant changes and then changes to the regulatory environment largely due to some of the high profile cases like your Enron and World-com...'*

The research found that the accounting firms felt that an auditing scandal would be most detrimental to the industry, with 40 percent of firms feeling this would be the greatest risk to the auditing sector. However, this was closely followed by 20 percent of respondents who felt that both the audit exemption gap and the concentration of auditors as high threat areas to the auditing sector (figure 4.6).

Figure 4.6: What do you perceive to be the greatest threat to the auditing sector in Ireland over the next ten years?



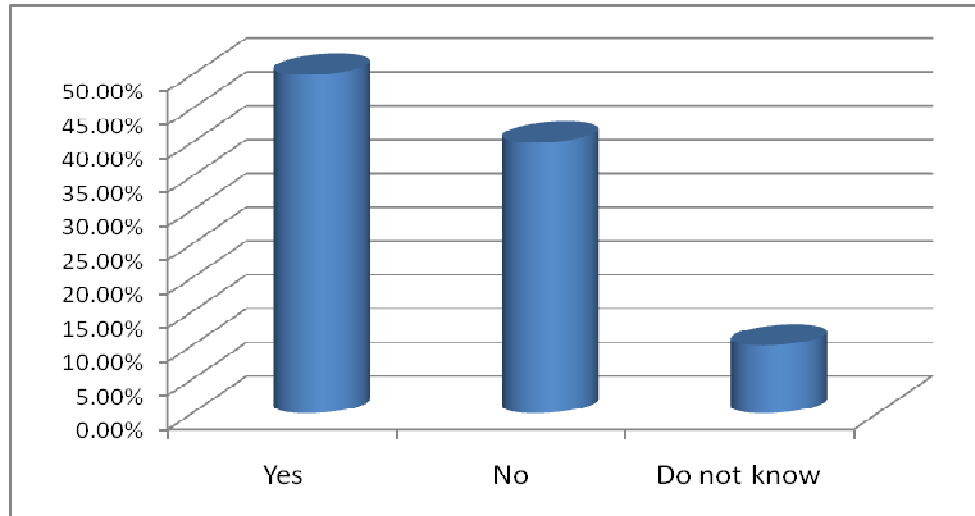
Interviewee one raised concerns on the quality of future training ‘...that there will not be the depth of training to the trainee’s of the future.’ As an audit ‘is a useful training exercise...it’s like an extended case study of a particular client and it provides an in-depth training tool and training which you don’t get from other areas.’ However, no respondents of the questionnaire felt this would be an issue. Interviewee two agrees with the accounting firms and felt that the greatest threat to the auditing sector was the risk of another auditing scandal ‘to undermine the confidence again.’ They also felt that the rise in the audit exemption might pose a threat. Conversely, interviewee three suggests that auditor liability was the greatest threat as ‘liability cannot be limited and as such the partners...personal assets are at risk if they are found to be negligent.’ They also agreed with 20 percent of respondents by feeling that the threat from concentration of auditors was also an issue saying, ‘...there wouldn’t really be any choice. More importantly there wouldn’t really be competition.’

4.2.3 The audit exemption

The respondents were asked whether they felt that the audit still played a role in audit exempt companies. The results from this question were mixed with only 50 percent of firms feeling it was a cost effective exercise for audit exempt companies while 40 percent felt otherwise. This 40 percent are of the same view as Fearnley *et al.* (2000) and Kenny

(2005), who feels the financial burden, outweighs the perceived benefits of the audit for small companies as seen in figure 4.7.

Figure 4.7: Do you feel the audit is still a cost effective exercise for audit exempt companies?



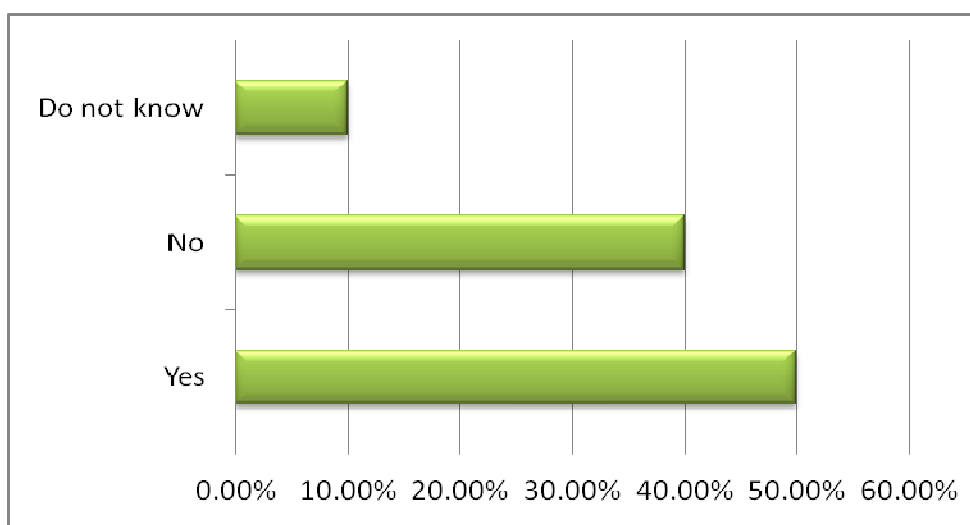
The three accounting bodies however felt that there was a definite role for the audit, with interviewee one stating *'We have always said that an audit is a useful control and a useful function, and in itself is useful for a small company.'* However, they did agree with the 40 percent of respondents stating, *'the cost benefit basis of an audit for a small company is just not worth it anymore'*. While interviewee two states, *'Certainly, in certain circumstances, we wouldn't want the audit abolished altogether for small companies.'* They also said that although 10 percent of shareholders could enforce the statutory audit *'it probably would be fairer if there was a unanimous decision.* In addition, interviewee three agreed however, they did feel that there might be a need to consider alternative forms of assurance particularly for the SME market. *'...professionals would undoubtedly develop different forms of evaluation for companies that are somewhat less particular than the statutory audit...'*

Fearnley *et al.* (2000) results were supported when asked whether an audit would add value for audit exempt companies interviewee one stated *'Yes it certainly adds*

value...however the amount of value they add is disproportioned to the cost only for small companies.’ While interviewee agrees they do add value and points out that firms may still need audited accounts for ‘additional assurance for reasons such as obtaining a grant, and securing bank loans and things like that.’ as Kenny (2005) highlights. They also said that ‘...the main purpose and focus of the audit was lost.’ on owner/managed limited companies. Interviewee three agrees with the other two interviewees by stating it would still add value, however, concerning an alternative service to the audit they felt it would be difficult to construct an engagement that would give the same comfort as an audit. Suggesting the accounting industry wasn’t ready for another change ‘...I don’t think there’s an appetite for it certainly not most practitioners as there has already been so much change...’

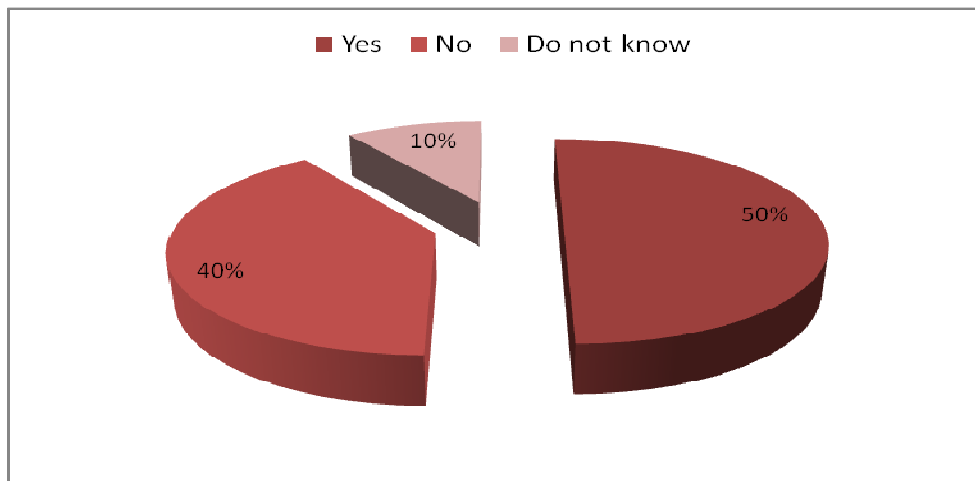
The researcher also asked the respondents whether they had felt any impact from the recent rise in the audit exemption thresholds, with figure 4.8 showing 50 percent of respondents said that it had affected them. This is in keeping with what was experienced in the UK. In order to develop a greater understanding of this impact, the researcher asked further questions on the recent rise of the audit thresholds.

Figure 4.8: The audit exemption has recently raised its thresholds under EU law; do you feel this increase has had an impact on your accounting firm?



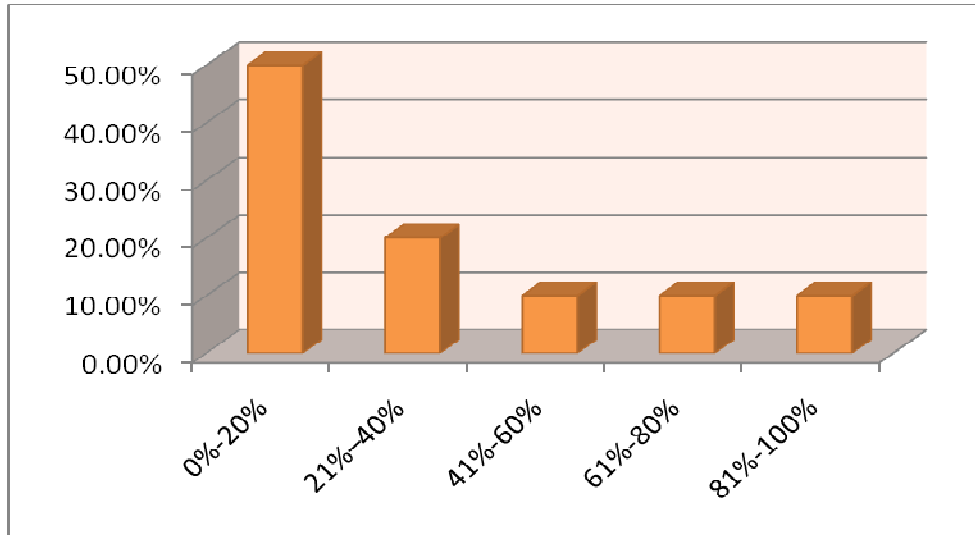
Concerning the rise in the audit exemption thresholds, the researcher asked the audit companies had this led to a decrease in the number of audits they performed. The results show that 50 percent of the firms said the increase in the threshold had decreased the number of audits performed by them while 40 percent were of the opposite opinion (figure 4.9).

Figure 4.9: Has the rise in the audit exemption reduced the number of audits carried out by your firm?



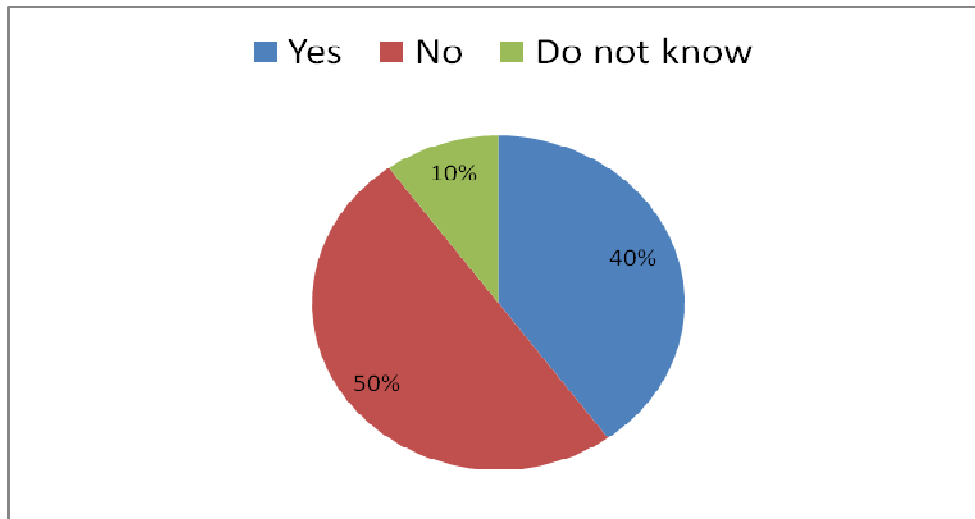
Research found 50 percent of respondents stated that less than 20 percent of their clients had availed of the audit exemption since the thresholds have increased, while interestingly 10 percent of respondents said that 81 to 100 percent of their clients had availed of the audit exemption (figure 4.10). The OECD report (2007) states that EU figures suggest that 93.7 percent of Irish companies would be eligible for audit exemption when the new thresholds apply.

Figure 4.10: What percentage of your clients has availed of the audit exemption since the thresholds have increased to the new levels?



Furthermore, figure 4.11 shows 40 percent of firm's income from auditing had decreased since the rise in audit thresholds.

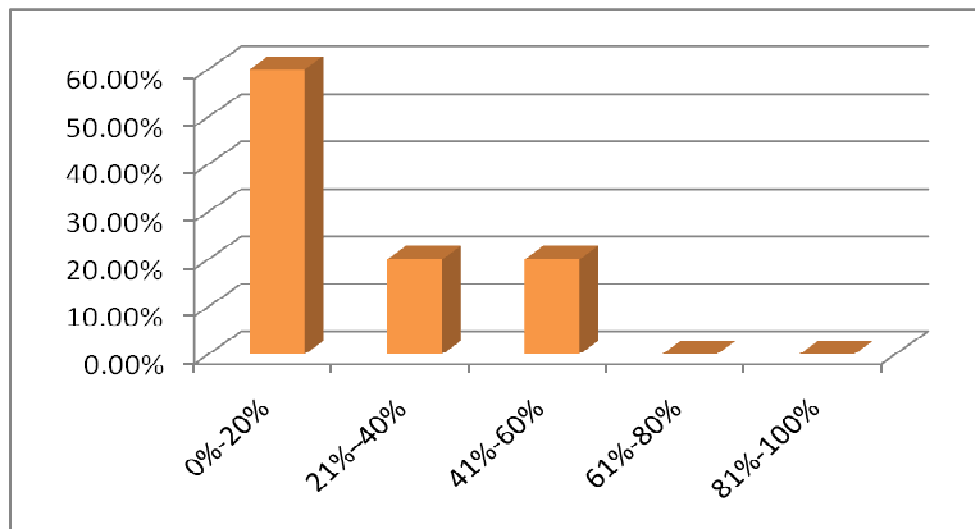
Figure 4.11: Has the rise in the audit exemption lead to a decrease in revenue from auditing in your accounting firm?



Concerning this decrease, the majority of these firms (60 percent) said their revenue had decreased less than 20 percent. Surprisingly 20 percent of firms reported that their

revenue had decreased by between 41 to 60 percent (figure 4.12). This is similar to what the UK experienced when they availed of the maximum thresholds in 2004. As a direct result in the decline in demand for audits, the ICAEW launched a consultation assignment which led to the development of a new service termed ‘assurance services’.

Figure 4.12: What percentage of your income has decreased as a result of the rise of the audit exemption thresholds?



The researcher asked the interviewees what impact they thought the rise in the audit exemption thresholds would have on the audit profession. Interviewee one said that it ‘...means that a lot of firms have no audit, so that the small practices don’t have audits, and don’t want them’. Interviewee two said ‘what it does it allows the auditor profession to concentrate on other services...they are free/freer to provide other value added services.’ While interviewee three felt it would affect the training of students, as many firms will not have audits. Therefore, the requirements to become an auditor would need reviewing and there may be an elective process to obtain the auditing certificate. They also felt that the most recent rise is substantial; however, the consensus within the profession that this was long overdue as it was seen as a burden, which supports Kenny (2005). Interviewee three’s comments support the literature, which showed the audit exemption was widely welcomed such as the ICAI (ICAI, 2006b), and the CPA (Heaphey, 2006).

When asked on their development plans for the future figure 4.13 shows that only 30 percent of respondents said that the threshold increase had affected it, however all respondents indicated areas in which they were trying to break into in the coming years. Tax planning proved to be the most popular emerging area (23.33 percent) with accounting advice (16.67 percent) following close behind as can be seen in figure 4.14.

Figure 4.13: Has the audit exemption issue affected your accounting firm’s development plans for the future?

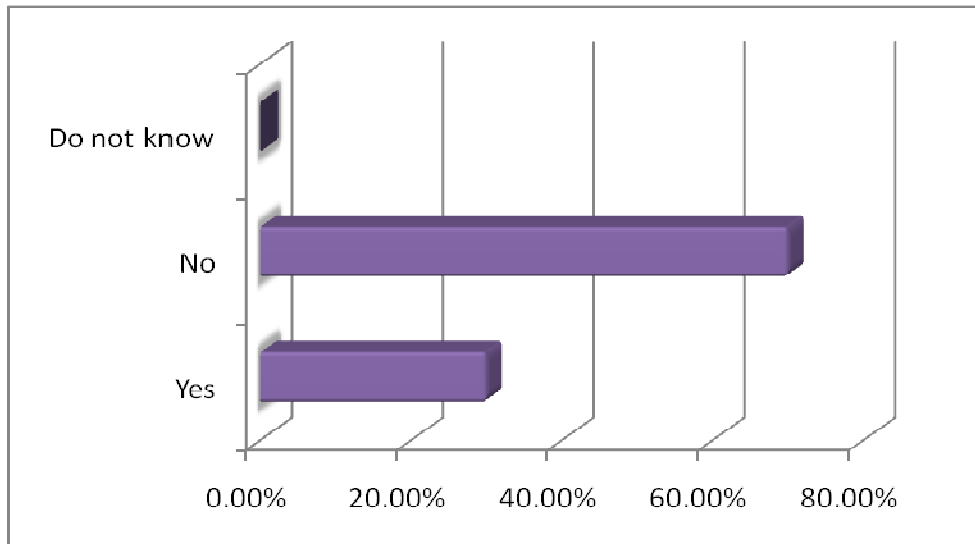
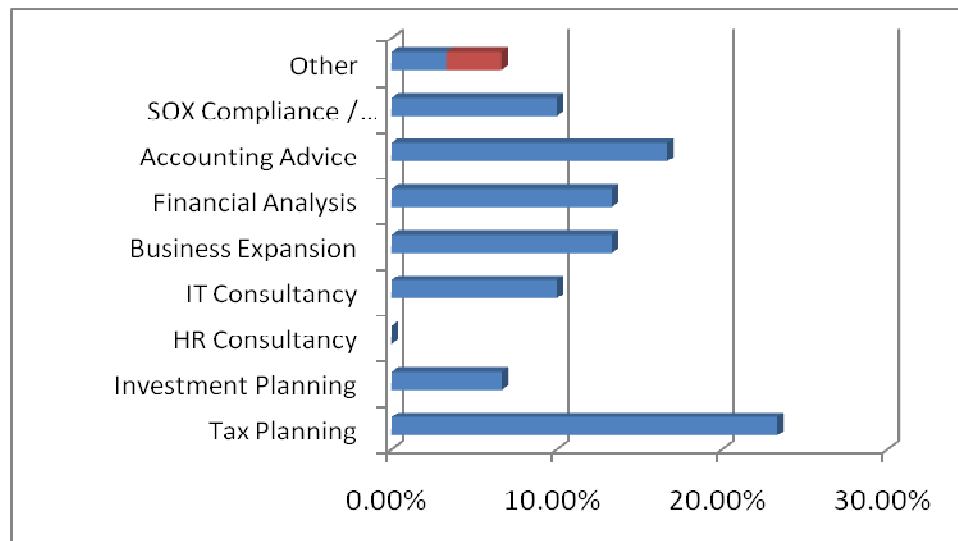
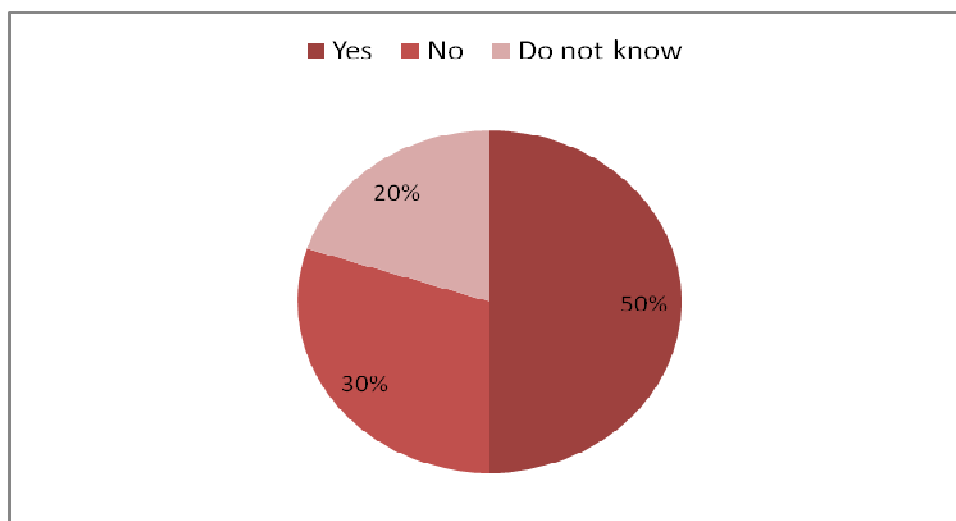


Figure 4.14: What new or emerging areas of work will your firm try to break into over the next ten years?



Interviewees were asked how they felt the rise in the audit exemption threshold would affect the accounting firm's development plans. Interviewee one felt that many firms would cease their audit services, while others would identify auditing as a growth area stating *'...people will specialise in auditing...'* Interviewee two felt that it would force them offer new skills and that they will *'...have to up skill themselves or acquire new skills and in some circumstances retrain themselves in the provision of other skills and provision of other services'*. This supports the findings from the accounting firms who indicated they were exploring new areas. Interviewee two went on to say that they felt *'The biggest challenge that audit exemption poses will be the training in auditing, the training of people going forward'*. Interviewee three said they expected a reduction in fee income and felt that the income lost on the audit fee will not go back into accounting services, but spent elsewhere *'I suspect it may go more into management information projections and strategy efficiency assignments, benchmarking that sort of thing.'* They do however agree with interviewee two that it will free experienced staff so that they will be able to assistance and expertise in other areas. Despite this, the 50 percent of firms have a plan in place to cope with the continual rise in the audit exemption as can be seen in figure 4.15.

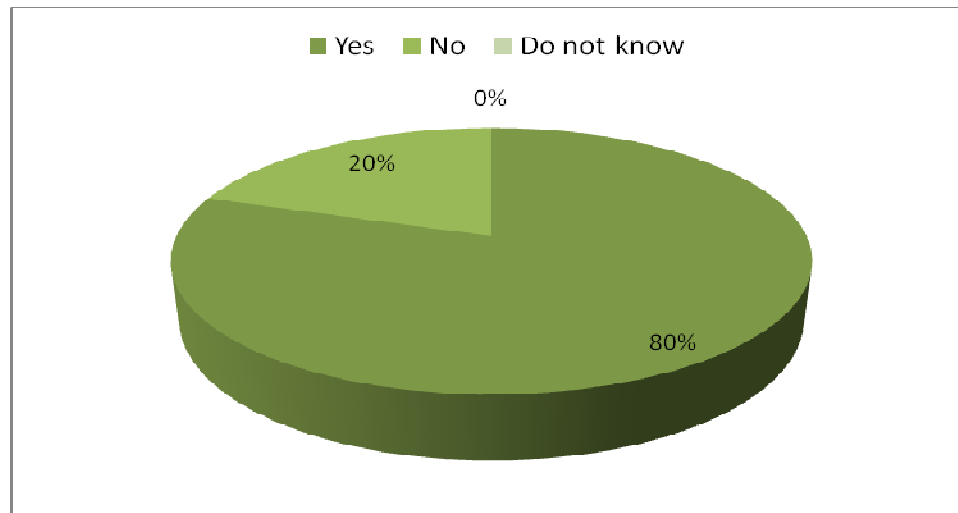
Figure 4.15: Does your firm have a strategy in place to cope with the continual rises in the audit exemption to EU levels?



All three accounting have a strategy in place to cope with the rising audit exemption, with interviewee one detailing a system that is happening in the UK whereby a staff member would gain sufficient auditing knowledge and would be shared among small practices. They feel that *'That is something I can see in the future and if there is sufficient call for it we will arrange for it here in Ireland'*. Interviewee two says their strategy is in the form of up-skilling and retraining their members saying *'the institute has changed its own strategic direction, where we were primarily an audit and accounting body, now we are trying to train our members to be more strategic minded, more focused on enterprise...'*

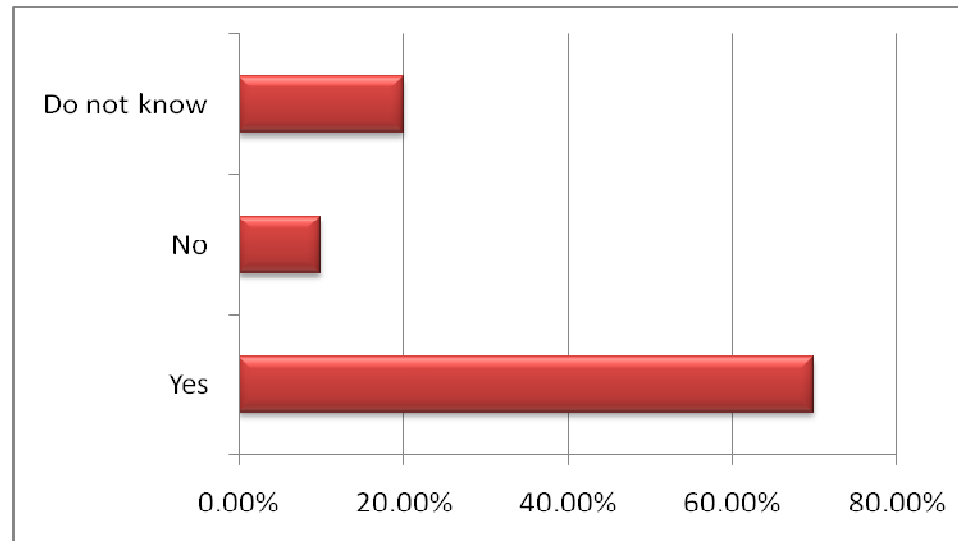
The interviews with the accounting bodies had suggested that there might be problems for accounting firms in meeting requirements to train auditors, despite this only 20 percent of firms felt this would be an issue as can be seen in figure 4.16. Therefore, the respondents feel this will not be an issue, unlike all three interviewees who mentioned audit training as a possible problem.

Figure 4.16: Do you feel that your firm will continue to meet the requirement in order to train your employees to be qualified auditors?



Although two accounting bodies stated that they have provided training to their accounting firms since thresholds were increased, only 70 percent of firms stated they had received training (figure 4.17).

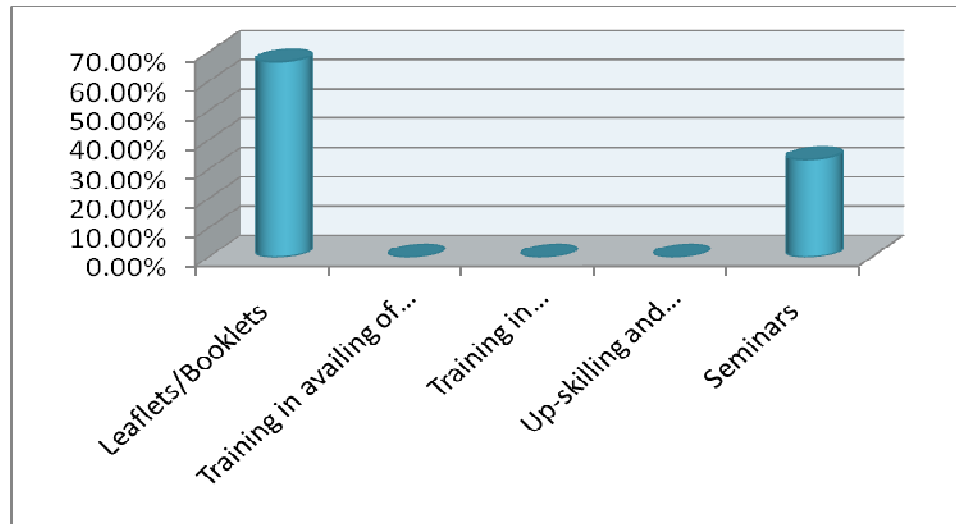
Figure 4.17: Has your accountancy body provided guidance on the audit exemption since the increase in its thresholds?



Interviewee one states *'We have provided training on how to avail of the audit exemption and the opportunities and problems it poses...encourage our members to provide more value added services to their audit exempt clients.'* Interviewee two states that they provide their members with a comprehensive document and training on how to avail of the audit exemption and they *'have also started introducing training in...more value added services that they can offer clients.'* Interviewee three said that they are limited in what they can do because it is a competitive industry *'other than the ongoing work that we do with regards to brand it wouldn't be permitted to make a concentrated effort to safeguard or protect the income of any particular category of membership'*. This interviewee also points out that they found no evidence of companies going to NI because the audit exemption was higher even though this was suggested in literature (ICAI, 2003).

The training the respondents have received has been in the form of leaflets/booklets (66.67 percent) and seminars (33.33 percent) as can be seen in figure 4.18. However no respondents mentioned training in supplementing their income or up-skilling and retraining despite two accounting firms stating they provided this to their members.

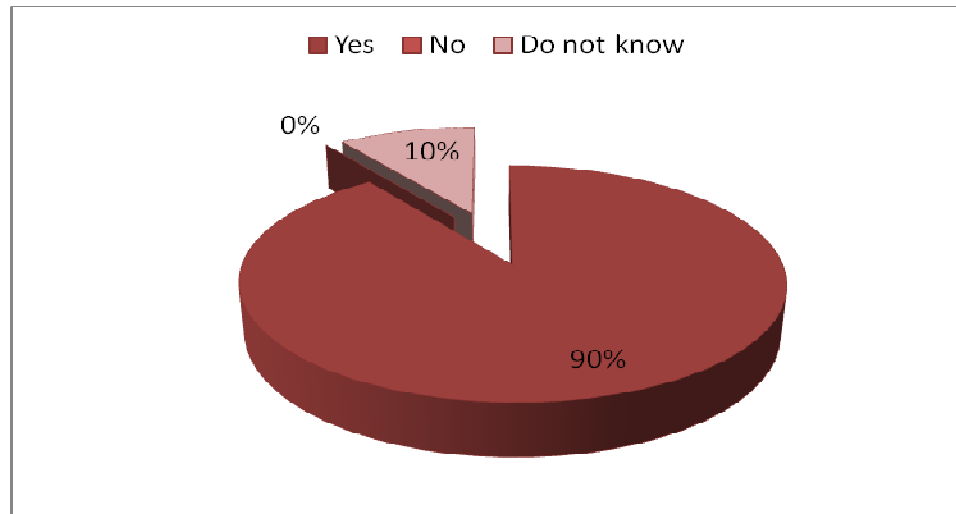
Figure 4.18: What guidance has your accounting body provided on the audit exemption?



4.2.4 Assurance services

The literature suggests that there may be a gap for providing assurance services to audit exempt companies in Ireland; therefore, the researcher felt this would be an important area to broach with the accounting firms. Ninety percent of respondents felt that such services could be provided in Ireland, with no respondents feeling it would not be possible to provide such services (figure 4.19). This shows that engagements that are provided in the UK and other countries could be provided in Ireland and supports ICAI (2006) who states such services could be provided in Ireland.

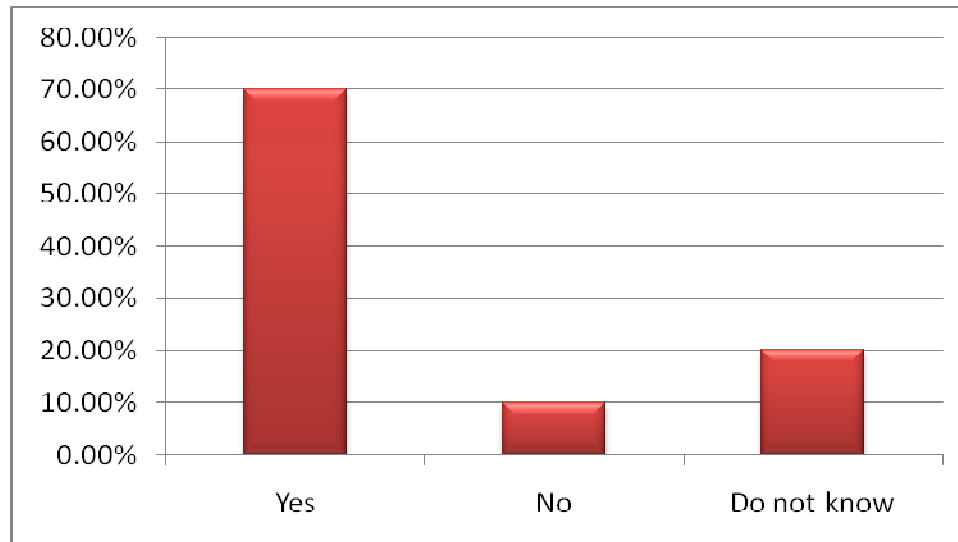
Figure 4.19: Do you feel it is possible assurance services could be provided in Ireland?



Interviewee one believes that the international standard on assurance services tends not to be adopted in Ireland. However, the ICAI (2004) said ISAE 3000 was issued in response to the increasing demand for assurance reports. They feel the problem with assurance services is that *'...firms are a bit wary about issuing a report where they are not sure exactly about how much assurance they are actually giving. You could end up doing an assurance assignment that ends up spending the same as an audit'*. While interviewee two feels, it would be valuable services to offer and their accounting body would be willing to take it on. They also state that there is a gap and *'...if an appropriate assurance market could be developed, I think there is definitely a market here for it in Ireland'*. Interviewee three felt it would make sense to introduce a review type engagement but they had reservations concerning the demand for it. However, approximately half of the respondents showed an interest in availing of the ICAEW assurance services (ICAEW, 2006c).

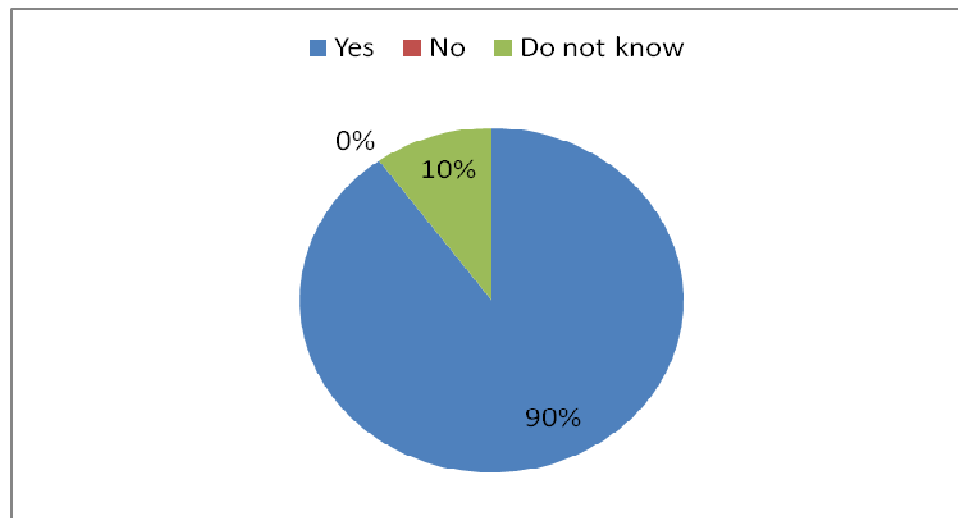
Seventy percent of respondents felt assurance services would be a viable substitute for companies who may have felt a loss of income from the rise in the audit thresholds, while only 10 percent of respondents felt otherwise as can be seen in figure 4.20.

Figure 4.20: Do you feel this could be a viable substitute for companies who have felt a loss of income from the rise in the audit exemption thresholds?



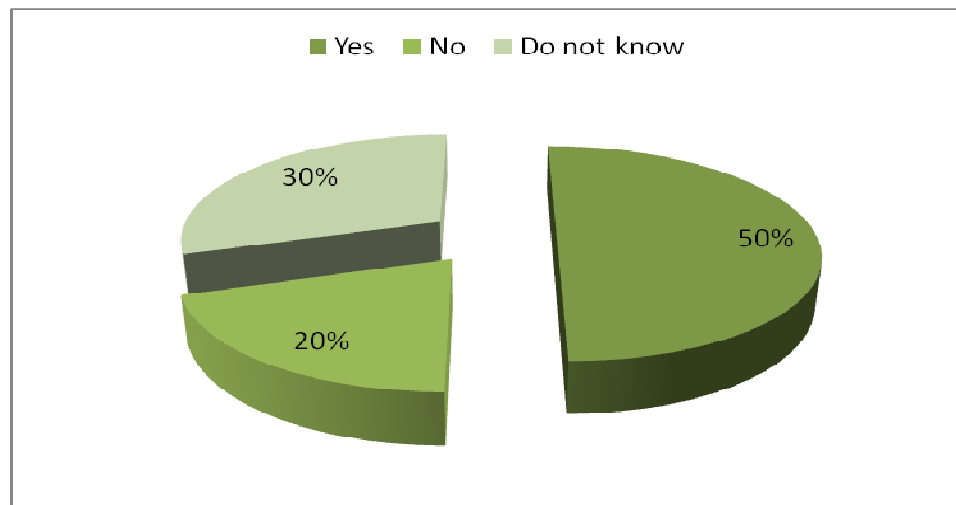
Further investigation found that 90 percent of respondents would be interested in providing such services to their clients as seen in figure 4.21.

Figure 4.21: Would your accounting firm be interested in providing such services to your clients?



However only 50 percent of accounting firms felt there would be a demand for assurance services, while 30 percent of respondents remained undecided. Only 20 percent of respondents felt a demand would not exist however, this spilt opinion is similar to the accounting bodies views (figure 4.22).

Figure 4.22: Do you feel a demand would exist for such services with audit exempt companies?



The interviewees were asked what issues they felt would need to be addressed concerning assurance services. Interviewee one said they felt the expectation gap is the biggest issue, feeling *'The new standard on assurance will leave an expectation gap to the public and the professional public...what sort of liability do you have and so on'*. Interviewee two highlighted the liability issue, competence and quality checks as essential areas that would need attention. However, they felt the expectation gap was the major challenge, stating that not even banks *'...know the difference in an audit and a non audit. They just see it was signed by an accountant and accept it was ok'*. Interview three felt that liability and independence would need to be addressed with the independence issue being particularly difficult, as *'...if the income is falling well then you will need to do something else to fill that gap'*.

The accounting firms identified the expectation gap, independence and liability issues as the key areas, which would need addressed (figure 4.23). The respondents were also

asked how they felt these issues could be overcome. Many respondents had no solution to the, expectation gap, with one stating that the accounting bodies should *'Set a clear definition of what assurance services are with detailed explanations'*. One respondent stated *'a clause in the audit report to cover liability'* and another stated *'Liability would be covered with a disclaimer of some sort, while you would specify area assurance was given on'*.

Figure 4.23: What issues to you feel would need to be addressed concerning providing such assurance services?

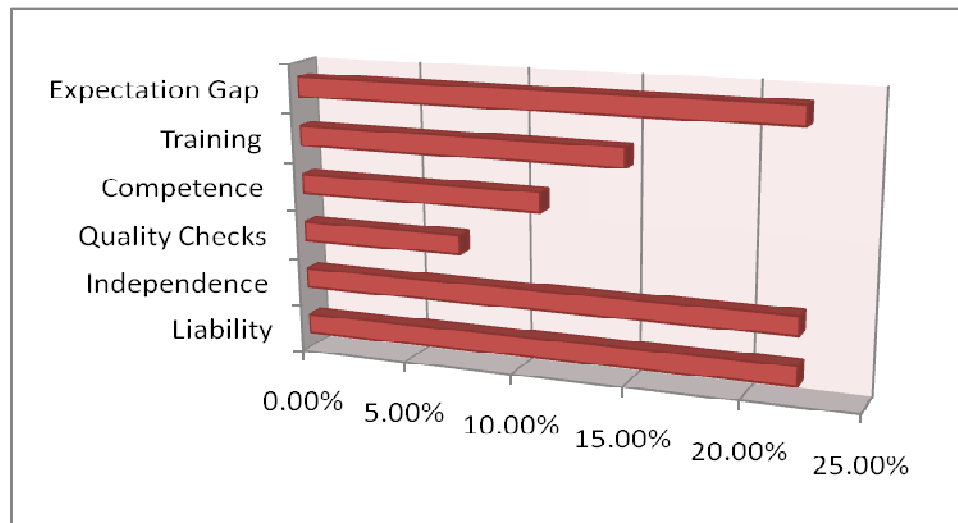
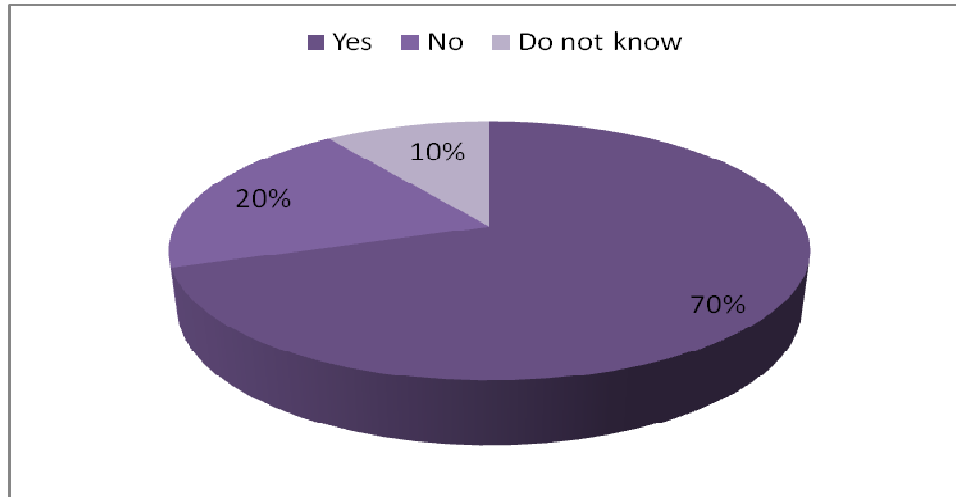


Figure 4.24 found that 70 percent of respondents felt that an expectation gap would emerge on the difference between auditing and assurance services, while 10 percent remained undecided. The interviewees also felt that an expectation gap would emerge, with interviewee one believing if assurance services do develop this will be an issue. They feel that *'...the members of the public don't understand the difference between an audit or assurance or even an accountants report'*. This supports Iwasaki (2006) who felt the introduction of the new assurance services would add further to the confusion. However, interviewee two felt that the expectation gap could not be any worse that at present. They also believe that if assurance services did emerge it would present an opportunity to explain the expectation gap as *'...If a new service was developed, clients*

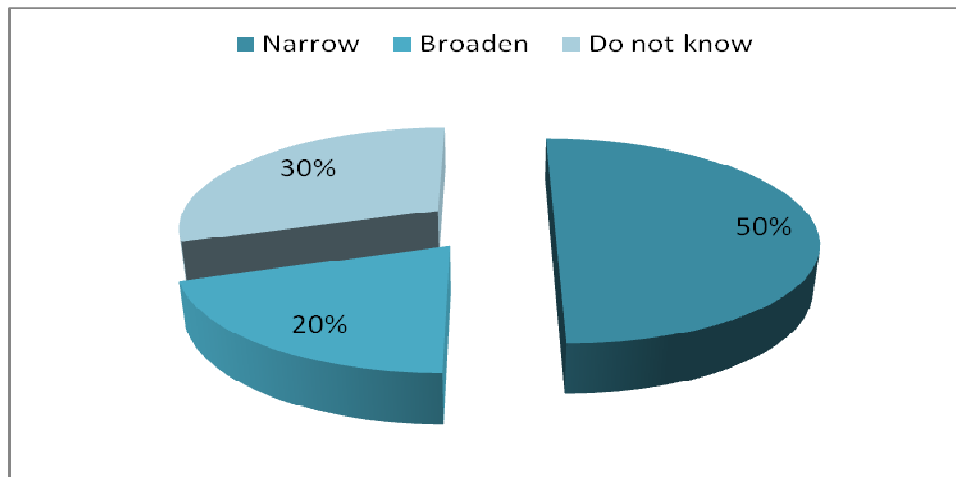
could see three levels existed, accounts compilation, you can have assurance or you can have an audit...’

Figure 4.24: Do you feel an expectation gap will arise to the client on the difference between auditing and assurance services?



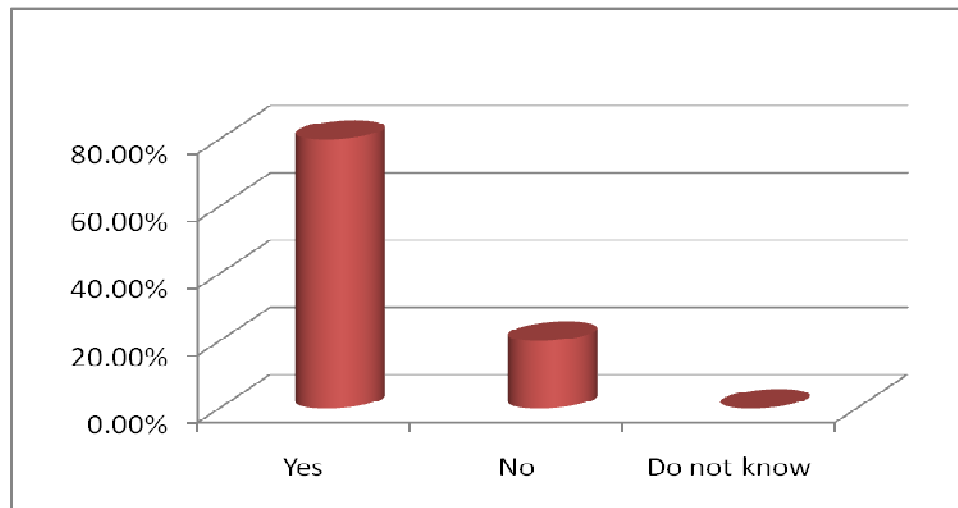
Hence, the respondents were asked whether they felt it would help narrow the audit expectation gap or in fact broaden it. The results from this question were mixed, with 50 percent feeling it would narrow the expectation gap. Only 20 percent felt it would broaden it while 30 percent remained undecided in this issue (figure 4.24).

Figure 4.25: Do you feel that if assurances services were introduced they would help narrow or broaden the Audit expectation gap of the client?



As a closing question, the respondents were asked whether they would continue to offer audit services in the coming years, unsurprisingly the preponderance of respondents stated they would, however, an astonishing 20 percent said they would not provide auditing services in the future which may indicate a movement towards specialisation of auditing as highlighted by the interviewees (figure 4.26).

Figure 4.26: Do you feel your accounting firm will continue to provide audit services to your clients in the coming years?



4.3 Conclusion

Chapter four analysed and discussed the main findings of both the questionnaires and the interviews, which were conducted by the researcher. From this, one can see that the results have confirmed the work of a number of different authors and have researched the desired aims of the researcher, as is outlined in chapter five.

Chapter 5

Conclusions & Recommendations

5.1 Introduction

The purpose of chapter five is to summarise the findings of the research, draw conclusions, issue recommendations and suggest further areas of research based on the findings of the researcher's secondary and primary research. It also examines whether the aims and objectives of this research have been met.

A review of literature revealed a lack of information on the impact the audit exemption has had in Ireland. The review of the literature developed the research questions, which was refined into research objectives and aims. The research endeavoured to address the following aims:

- How the audit exemption has evolved and impacted accounting firms in Ireland and internationally
- To investigate developments in the auditing sector in the past 20 years
- To discover if the rise of the audit exemption thresholds has had an impact on the top 20 accounting firms in Ireland
- What is the future of auditing for the top 20 accounting firms in Ireland

5.2 Overview of the main findings

The conclusions are defined by the research objectives, which were outlined in chapter one. All research objectives were achieved by a combination of semi-structured interviews, questionnaires, and a detailed examination of literature.

5.2.1 Why the audit exemption was established

A review of the literature established that the audit exemption was established to reduce the financial and regulatory burden on small owner managed companies, where there is little or no separation between ownership and management (Chambers, 2006; ICAI, 2006). Therefore, the regulatory cost of protecting the public interest through the statutory audit outweighs the benefits to the public (ICAEW, 2006a). The research found that the recent rise in thresholds in the UK expects to save £35 million per annum of SMEs money (Iwasaki, 2007).

Despite this, 50 percent of accounting firms feel that the audit is a cost effective exercise for audit exempt companies. The accounting bodies agree the audit is useful and added value, however two accounting bodies felt the cost benefit for small companies no longer represented value.

5.2.2 The development of the audit exemption in Ireland and internationally

Literature found Ireland first availed of the audit exemption in 1999, which was 20 years after the EU first introduced the audit exemption as an option. The thresholds have been amended twice to its current level after calls from the accounting bodies to raise the maximum thresholds as it felt that the thresholds were having an adverse affect on Ireland's economy. Literature has established the UK and Australia audit exemptions are long established while South Africa, the Nordic countries and several other countries appear to be under increasing pressure to exempt small companies.

5.2.3 The impact of the audit exemption in Ireland and internationally

The researcher has found no suggestion that the audit exemption has had any impact in Ireland from the literature they have reviewed. However, the ICAI (2007) states that 2008 represents the first year when many companies will decide to dispense with the requirement to have a statutory audit and may be the first opportunity they have had to do

so. This is supported by one of the accounting bodies who said the most recent rise is substantial and in the case of Ireland, the thresholds have increased by 15 or 20 times over the last five or six years. Research has found that the increase in thresholds in the UK had a direct link in the deterioration of the auditing sector.

5.2.4 Irish and international developments in the auditing sector

Literature has found that worldwide, countries are looking at their current system of auditing of SMEs and looking into suitable alternatives (Dingli, 2006). Gramling *et al.* (2001) recognises that the market for auditing services is changing and that audit firms are now offering a vast array of non-audit services. While Chambers (2006), concludes that assurance is being sought not only for audits of financial statements but of processes too. Maijoor (1998, cited O'Leary, 2004), finds that systems reviews, risk assessments and control evaluations are a growing business area for audit firms. The ICAA have looked at possible alternatives to the audit (Parker, 2001), South Africa are looking at the possibility of removing the audit for small companies, and the Nordic countries have also taken steps to reassess audit procedures in place (Dingli, 2006).

The primary research found that both accounting bodies and firms have felt a shift in the overall accounting environment, and a movement away from traditional services with 70 percent of firms said they have felt a shift in the accounting environment. This was confirmed by the opinion of the accounting bodies, with all three saying the skills and services have widened and deepened. One interviewee put the movement down to the audit exemption and the need to provide services that add value. The researcher also identified that the accounting firms are moving towards providing tax planning, accounting advice and financial analysis services. The interviewees felt that the auditing scandals, and as a result of them, the IAASAs, had the most significant impact on the auditing profession in Ireland in the past 10 years. The audit exemption and monitoring were also highlighted as influencing largely on the auditing sector.

5.2.5 Alternatives to the audit and does a gap exist in Ireland to provide such services

Literature has found that several countries have developed alternatives to the audit. The most accepted being the review engagement, which has proven successful in the US and Canada. Australia, the Nordic countries and the UK are looking at the option of introducing the review engagement either as part of company law or on a voluntary basis. The US developed hundreds of new assurance services due to the diminishing audit income and developed business plans for several assurance services such as WebTrust, ElderCare and SysTrust. These presented the opportunity to provide assurance engagements on a company's internal controls, regulatory compliance, risk assessments, systems reliability and web security.

Research also found the IAASB have confirmed that they have made movements towards exploring the concept of an alternative assurance service for smaller entities (IAASB, 2007). They have also issued a revised assurance framework and ISAE 3000 as its first revised standard, which is for assurance engagements other than the review of historical information. The IAASB states ISAE 3000 was issued in response to the increasing demand for assurance reports on, environmental, social and sustainability reports, information systems, internal control, corporate governance processes and compliance with grant conditions, contracts and regulations (ICAI, 2004). While the ICAEW (2008) recognised ISAE 3000 assurance on corporate responsibility as an area, where there is current demand for external assurance.

A gap for alternative assurance services has been identified internationally and has been provided for. While although undeveloped, research has shown that a market may exist for such services to be provided in Ireland (Doran, 2003). However to date, there is limited information on the developments concerning the Irish context, though the ICAI have found significant support for the introduction of some form of alternative to the audit, such as a review type engagement.

5.2.6 The nature and extent of the impact of the rise in the audit exemption threshold on the top 20 accounting firms in Ireland

Literature found the OECD states that EU figures suggest that some 93.7 percent of Irish companies would be eligible for the audit exemption when the new thresholds apply, and assuming the research carried out in the UK would apply here, the overwhelming majority (approximately 84 percent) of small companies will take advantage of the statutory exemption (POB, 2006a). While a survey of CPA practitioners found 32 percent expected to move away from providing audit services completely (Heaphey, 2006). With primary research establishing that 70 percent of respondents felt SMEs were the most important clients to their firm and for 50 percent of firms, auditing provides the most revenue to their firm and if 84 percent of firms availed of the audit, exemption it would be detrimental to the auditing industry.

The results of the survey found that 50 percent of respondents state that the rise in the audit exemption thresholds had affected them. From investigating this impact, the researcher found 40 percent of respondents revenue from auditing had decreased; with the majority of these firms (60 percent), saying their revenue had decreased less than 20 percent. However, 20 percent of firms reported that their revenue had decreased by between 41 to 60 percent. The research found that accounting bodies felt that the audit exemption would allow accounting firms to concentrate on other areas and they raised concerns over the future training of students in auditing. However, the accounting firms did not perceive this as a problem in the immediate future. One-interviewee suspects there will be a reduction in accountings income, and that it will not be regenerated in the accounting industry. Despite this, 50 percent of accounting firms have strategies in place to cope with the continual rise in the audit exemption. The research found the accounting bodies strategies were in the form of training and new initiatives.

5.2.7 Decline in the demand of audits in the top 20 accounting firms in Ireland

Literature found that within the top 20 accounting firms the increase in demand for accounting and auditing services has fallen from 35 percent in 2006 to 10 percent in 2007. This indicates that the auditing sector has experienced a decrease in the demand for auditing services, and perhaps this is a result of the increasing thresholds. The CPA survey found that 80 percent of practitioners expected that more than 80 percent of their clients would no longer need an audit under the new thresholds (Heaphey, 2006).

The results found that 50 percent of the firms felt the increase in the threshold has decreased the number of audits performed by them. While research found that for 50 percent of respondents that, less than 20 percent of their clients had availed of the audit exemption since the thresholds had increased, while interestingly 10 percent of respondents said that 81 to 100 percent of their clients had availed of the audit exemption. This is supported by the views of the accounting bodies agreeing that the number of audits performed by accounting firms had decreased considerably. With interviewee three saying that with fewer audits, it means fewer auditors will be required.

5.2.8 Level and nature of interest that the top 20 accounting firms have in providing alternatives to the audit in Ireland

Literature established that ICAI members had expressed an opinion that they would be interested in providing a review engagement. This is supported by 90 percent of respondents, who felt that assurance services could be provided in Ireland. While, 70 percent of the respondents felt assurance services would be a suitable substitute of income for firms who had suffered a decrease in income from the rise in the audit thresholds. However, when asked whether there would be a demand for such services, the results were mixed with 50 percent feeling there would be a demand and 30 percent of respondents unsure. This supports literature, where half of respondents showed an interest in availing of the ICAEW assurance services (ICAEW, 2006c). Despite this, 90 percent of firms said they would be interested in providing assurance services to their clients.

The results from the questionnaires were positive, however the interviewees remained divided on whether assurance services could be provided in Ireland. One-interviewee points out that ISAE 3000 is established, however, it generally does not be applied and that there are concerns about how much assurance the accountant is giving, so therefore some assurance engagements would end up as large as an audit. While the other two interviewees felt there was a definite gap for assurance services, but one expressed concern over the demand for them. This interviewee also felt the auditing sector was not ready for another change, and there was currently not enough demand for such services. However, the British bankers association among others welcomed the ICAEW initiative.

Concerning the future of the auditing sector, accounting firms felt another auditing scandal would be most detrimental to the industry, followed by the audit exemption and concentration of auditors. While the interviewees highlight the training of auditors and another auditing scandal as possible threats.

5.2.9 The concerns in relation to providing alternative services

While there appears to be a definite gap for such services, several concerns were raised by both the accounting firms and accounting bodies. The accounting bodies felt the expectation gap, independence and liability issues would need addressing. The expectation gap appeared to be the biggest issue with the accounting bodies agreeing. The interviewees also felt that liability and independence issues would need addressed.

5.2.10 Establish if an expectation gap will emerge for these services

The research found 70 percent of respondents felt that an expectation gap would emerge on the difference between auditing and assurance services. The interviewees also felt that an expectation gap would emerge, with one interviewee saying it could not get any worse than present. However, this interviewee went on to suggest that assurance services might present an opportunity to explain the expectation gap, and may actually narrow it. The

results from this were mixed with 50 percent feeling it would narrow the expectation gap, and 20 percent felt it would make it worse.

5.3 Recommendations

After reviewing the results, the researcher would make the following recommendations. A revision of the auditing reporting system should be conducted in Ireland. It should be investigated whether the audit for SMEs could be replaced with a review engagement for companies meeting a certain size threshold. Alternatively, the review engagement could be introduced as a voluntary engagement for large companies in their quarterly review or smaller companies who want some level of assurance without the burden of an audit.

The IAASB should establish a committee to investigate assurance services, like that of the Elliott committee. This committee would establish business plans for several assurance services with potential revenues so that the accounting bodies can train their members and provide guidance on assurance services.

The three accounting bodies should take advantage of ISAE 3000 and establish assurance services that their members can offer their clients. The literature and primary research both found that there is a gap for providing such services with proper marketing and merchandising. If the accounting firms were helped to market these services, this would supplement the income lost for the 40 percent of firms whose income has decreased because of the rise in audit thresholds. This research highlights the need for accounting firms to revise the services they are offering their clients.

With regard to small audit practitioners, the researcher would strongly recommend them to revise and diversify their non-audit services as if Ireland decides to avail of the Europeans maximum thresholds it would undoubtedly eliminate all small companies.

Concerning the audit exemption, the researcher recommends that the Government allow the new thresholds to bed down before collapsing to the pressure of raising the thresholds

again. A detailed study should be completed on the impact the audit exemption thresholds has had and the possible impact a further increase would have.

The researcher also recommends that the three accounting bodies monitor their accounting firms, as the researcher identified that the audit exemption has had an impact on the top 20 accounting firms, hence the same may hold true for smaller accounting practices.

The competition authority in Ireland will need to monitor on competition in the audit market as this research has highlighted there is a movement towards companies becoming specialised in auditing. This would put additional financial pressure on those firms that require an audit under legislation as market concentration would intensify and result in the cost of an audit to increase.

Finally, the researcher recommends that the accounting bodies review their procedures for training auditors, as this was highlighted as a possible problem in the future. If there is less qualified auditors this will reduce competition and therefore, increase the cost of an audit for the clients.

5.4 Areas of future research

This report has allowed the researcher to establish what knowledge already exists in the subject area and identify further opportunities for research. As the resources of time and money limited this research, further research could be undertaken to include the views of all accountancy firms. The research population should be further stratified into groups of relevant size, so that the results will not be skewed.

The views of the firms who are availing of the audit exemption and their reason for doing so could also be investigated As well as researching whether they would be interested in availing of alternative assurance services if available to establish if a reasonable demand

exists. Research in the UK suggests a market does exist for a voluntary review engagement.

Research could be undertaken in the application or un-application as it may be of ISAE 3000 as to why this standard is or is not being used in Ireland. Its application in other countries should also be investigated as this may present opportunities for Irish firms.

Research could be conducted concerning the training of auditors, as this was identified as a possible problem by all three accounting bodies. This could be carried out as part of a comparative study with other countries to see if a similar situation has occurred and what impact it has had on the auditing sector.

Finally, further research could be undertaken in the area of the specialisation of auditors in Ireland and the impact this would have on Irish accounting firms. This was highlighted in this research and as Ireland is a small economy, any reduction in the choice of auditors would lead to an increase in the cost of an audit for companies.

5.5 Conclusions

The findings of this research have given valuable insights into the impact the recent rise in audit exemption thresholds has had on the top 20 accounting firms in Ireland and investigated possible alternative services to the audit. The findings have identified several recommendations and areas for future research. However, while the results show that the impact from the audit exemption is varied, the research has identified a definite opportunity to introduce alternative assurance services to the Irish market in line with developments in other countries.

References

Association of Chartered Certified Accountants (ACCA) (2008) 'Training Managers Guide', *ACCA Global*, March, Available at:

www.accaglobal.com/documents/TrainingManagersGuide.pdf.

Bedard, J. C., Jackson, C. M. and Lynford, G. (2005) 'Issues and risks in performing SysTrust engagements: implications for research and practice', *International Journal of Accounting Information Systems*, Vol. 6, p.55-79.

Brennan, N. (1998) *Accounting research – A practical guide*, Oak Tree Press, Dublin.

Burke, K. G., Kovar, S. E. and Preshaw, P. J. (2003) 'Understanding the satisfaction process for new assurance services: The role of attitudes, expectations, disconfirmation, and performance', *Advances in Accounting*, Vol. 20, p.43-75.

Carr, J. (2006) '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&itemId=234.

Certified Public Accountants (CPA) (2008) 'Applying for a practicing certificate', *CPA*, Available at:

<http://www.cpaireland.ie/displaycontent.aspx?groupid=146&headerid=278>.

Chambers, A. (2006) 'Assurance of Performance', *Measuring Business Excellence*, Vol. 10 No.3, p.41-55.

Collis, J. and Hussey, R. (2003) *Business Research – A practical guide for undergraduate and postgraduate students*, 2nd Edition, Palgrave Macmillan.

Cosserat, G.W. (2004) *Modern Auditing*, 2nd Edition, John Wiley & Sons Limited.

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

Dingli, J. (2006) 'Simply Assurance: an SME perspective', *The Accountant*, Autumn, p.46-49.

Doran, M. (2003) 'Value Added Services - Is that what clients really want?', *Accountancy Plus*, December, p.18-21.

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

Finance Magazine, (2007) 'Fee income soars as mid-tier firms shine', *Finance Magazine*, September, Vol. 21 No. 8, p.4.

Gilchrist, G. (2004) 'The Audit Is Dead - Long Live Consultancy', *Accountancy Plus*, September, p.49-50.

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

Hair, J. F., Money, A. H., Samouel, P. and Page, M. (2007) *Research methods for business*, John Wiley & Sons, Ltd.

Hass, S. (2006) 'The Americas literature review on internal auditing', *Managerial Auditing Journal*, Vol. 21 No. 8, p. 835-844.

Heaphy, S. (2005) 'Accountants call for increase in Audit Exemption', *Accounting Net*, 22 September, Available at: <http://www.accountingnet.ie/cgi-bin/artman/exec/view.cgi?archive=17&num=1112&printer=1>.

Heaphy, S. (2006) 'Majority of CPA clients may no longer require an audit', *Accounting Net*, 5 September, Available at: http://www.accountingnet.ie/content/publish/article_1381.php.

Hussey, J. & Hussey, R. (1997) *Business Research*, Macmillan Press Ltd, Basingstoke.

Institute of Chartered Accountants England and Wales (ICAEW) (2001) 'Audit Exemption – A short guide for practitioners', *Audit & Assurance Faculty*, Available at: www.icaew.co.uk/aafa.

Institute of Chartered Accountants England and Wales (ICAEW) (2004) '£5.6 million – threat or opportunity? A guide for practitioners on the audit threshold increase', *Audit & Assurance Faculty*, August, Available at: www.icaew.co.uk/aafa.f

Institute of Chartered Accountants England and Wales (ICAEW) (2008) 'Assurance on non-financial information existing practices and issues', *Audit & Assurance Faculty*, July, Available at: www.icaew.com/assurance.

Institute of Chartered Accountants England and Wales (ICAEW) (2006a) 'Audit exempt Companies- Beyond the Threshold', Issue Paper, *Audit & Assurance Faculty*, August, Available at: www.icaew.com/assurance.

Institute of Chartered Accountants England and Wales (ICAEW) (2006b) 'Audit exempt Companies– Chartered Accountants Services: A practical guide' *Audit & Assurance Faculty*, August, Available at: www.icaew.com/assurance.

Institute of Chartered Accountants England and Wales (ICAEW) (2006c) ‘Company views on the ICAEW Assurance Services’, *Audit & Assurance Faculty*, August, Available at: www.icaew.com/assurance.

Institute of Chartered Accountants England and Wales (ICAEW) (2006d) ‘Re: Assurance’, *Audit & Assurance Faculty*, August, Available at: www.icaew.com/assurance.

Institute of Chartered Accountants England and Wales (ICAEW) (2006e) ‘The ICAEW Assurance Service on Unaudited Financial Statements’, Interim Technical Release, *Audit & Assurance Faculty*, August, Available at: www.icaew.com/assurance.

Institute of Chartered Accountants in Australia (ICAA) (1997) ‘Major changes and new directions in accounting and auditing’, Available at: <http://www.icaa.org.au/>.

Institute of Chartered Accountants in Ireland (ICAI) (2007) ‘Practicing Certificate Regulations and Guidance’, *ICAI*, March, Available at: www.carb.ie/uploads/Practising%20Certificate%20Regulations%20and%20Guidance.pdf.

Institute of Chartered Accountants in Ireland (ICAI) (2006b) ‘ICAI – New Audit exemption thresholds will apply earlier than expected’, *Press Release*, 16 November, Available at: <http://www.icaei.ie/en/General/News-and-Events/Media/Press-Releases/2006/November/ICAI---New-audit-exemption-thresholds-will-apply-earlier-than-expected-/>.

Institute of Chartered Accountants in Ireland (ICAI) (2003) ‘Companies Bill must respond to UK changes on Audit Exemption says ICAI’, *Press Release*, 20 Nov, Available at: <http://www.icaei.ie/en/General/News-and-Events/Media/Press->

Releases/2003/November/Companies-Bill-must-respond-to-UK-changes-on-Audit-Exemption-says-ICAI---ROI-/.

Institute of Chartered Accountants in Ireland (ICAI) (2004) 'IAASB issues a new framework and standard for assurance engagements', *Press Release*, 26 January, Available at: <http://www.icaei.ie/en/General/News-and-Events/News1/2004/51292/51294/>.

Institute of Chartered Accountants in Ireland (ICAI) (2006a) 'Why we need reform – competitiveness, the SME sector and the audit exemption regime in Ireland', *Press Release*, Available at: [www.icaei.ie/documents/audit%20exemption%20final%20\(v6\).pdf](http://www.icaei.ie/documents/audit%20exemption%20final%20(v6).pdf).

International Auditing and Assurance Standards Board (IAASB) (2003) 'International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information', December.

International Auditing and Assurance Standards Board (IAASB) (2007) 'Proposed Strategy for 2009-2011', *Consultation Paper*, October, Available at: www.ifac.org/Guidance/EXD-Download.php?EDFID=00266.

Iwasaki, J. (2006) 'Beyond the Threshold', *Accountancy Magazine*, October, Available at: www.accountancymagazine.com.

Iwasaki, J. (2007) Institute of Chartered Accountants England and Wales (ICAEW) 'The consultation on the needs of audit exempt companies: one year on'. *Audit & Beyond*, November, p.2.

Kahn, R. L. and Cannell, C. F. (1957) *The dynamics of Interviewing*, John Wiley & Sons Inc.

Kenny, A. (2004) 'Audit Exemption a cost saving for small companies', *Accountancy Ireland*, Volume 7 No.2, April 2005, p.54 – 55.

Lambe, A. (2007) 'Audit Exemption - Enterprise Insight piece', *ICAI Press Release*, December, Available at: <http://www.icai.ie/en/General/News-and-Events/Media/Press-Releases/2007/December/Audit-Exemption---Enterprise-Insight-piece---Aidan-Lambe/>.

MacLulich, K. K. (2003) 'The emperor's new clothes? New Audit Regimes: Insights from Foucault's technologies of the shelf', *Critical Perspectives on Accounting*, Vol. 14, p.791-811.

O'Halloran, C. (2007) 'Liability regime must be remedied to ensure strong audit profession', *The Irish Times*, February 16, p.4, Available at: <http://www.irishtimes.com/newspaper/finance/2007/0216/1171494162143.html>.

O'Leary, C. (2004) 'The consistency of individual auditors in performing evaluations', *Managerial Auditing Journal*, Vol.19 No. 5, p. 597-605.

Organisation for Economic Co-operation and Development (OECD) (2007) 'Report on the application of the convention on combating bribery of foreign public officials in international business transactions and the 1997 revised recommendation combating bribery in international business transactions', March.

Parker, L. D. (2001) 'Back to the future: the broadening accounting trajectory', *British Accounting Review*, No. 33, p. 421-453.

Perrin, S. (2008) 'The comfort zone', *Accountancy Magazine*, January, p.96-97, Available at: www.accountancymagazine.com.

Professional Oversight Board for Accountancy (POB) (2006a) 'Review of how Accountants support the needs of Small and Medium-Sized Companies and their Stakeholders', March, Available at: <http://www.frc.org.uk/poba/publications/>.

Professional Oversight Board for Accountancy (POB) (2006b) 'Review of Audit Monitoring by the Recognised Supervisory Bodies for Audit in the UK', July, Available at: <http://www.frc.org.uk/poba/publications/>.

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.

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

Saunders, M., Lewis, P. and Thornhill, A. (2007) *Research methods for business students*. 4th Edition, Harlow: FT Prentice Hall.

Small and Medium Practices Committee (SMPC) (2007) 'Small and medium practices committee strategic operational and plan for 2007-2010', May, Available at: http://www.ifac.org/SMP/files/SMPC_Strategic_and_Operational_Plan_2007-2010.pdf.

Small Business Forum (SBF) (2006) 'Report of the small business forum: Small Business is Big Business', May 2006.

Tauringana, V. and Clarke, S. (2000) 'The demand for external auditing: managerial share ownership, size, gearing, and liquidity influences', *Managerial Auditing Journal*, Vol. 15 No. 4, pp. 160-168.

Weaver, L. and Jones, M. (2007) 'Continue to be rest assured', *ACCA*, Available at:
www.accaglobal.com/students/publications/student_accountant/archive/2007/80/3023625.

Appendix 1

Top 20 accountancy firms by fee income in Ireland

Firm	Fee Income 2007	Fee Income 2006	Market Share
PricewaterhouseCoopers	€322m	€290m	27.7%
KPMG	€269.3m	211.2m	23.2%
Deloitte	€143.6m	€124.9m	12.4%
Ernst & Young	€138m	€117m	11.9%
BDO Simpson Xavier	€72m	€60.5m	6.2%
Grant Thornton	€50m	€30m	4.3%
Farrell Grant Sparks	€31.3m	€26.5m	2.7%
Mazars	€26m	€21m	2.2%
Russell Brennan Keane	€16.5m	€13.1m	1.4%
Horwath Bastow Charleton	€16m	€14m	1.4%
Baker Tilly Ryan Glennon	€12m	€6m	1%
IFAC Accountants	€10.7m	€10.1m	.9%
HLB Nathans	€10m	€8.1m	.9%
Oliver Freaney & Co.	€9m	€8m	.8%
UHY O'Connor Leddy Holmes	€8m	€6.8m	.7%
Moore Stephens	€7.9m	€7.9m	.7%
Brenson Lawlor	€6.1m	€5.8m	.5%
OSK Accountants & Business Consultants	€5.7m	€5.2m	.5%
Ormsby & Rhodes	€5.4m	€5.2m	.4%
DCA Accountants & Business Advisors	€1.4m	-	.1%
Total	€1161.3	€976.3	100%

Appendix 2

Top 20 accountancy firms by income breakdown

Firm	Audit/ Accounting	Tax	Consulting	Corporate Recovery	Corporate Finance	Other
Baker Tilly Ryan Glennon	33	12	19	14	7	4
BDO Simpson Xavier	27	34	4	5	19	11
Brenson Lawlor	41	16	4	1	35	3
DCA Accountants & Business Advisors	65	15	10	0	10	0
Deloitte	45	29	12	0	11	3
Farrell Grant Sparks	27.5	25.2	19.8	10.5	13.7	3
Grant Thornton	50	20	5	10	10	5
Horwath Bastow Charleton	30	25	10	1	30	4
HLB Nathans	50	25	15	0	10	0
IFAC Accountants	85	15	0	0	0	0
Mazars	29.5	25.9	17.3	.61	24.6	2.1
Moores Stephens	54	27	6	2	6	5.0
Oliver Freaney & Co.	38.5	31	26	.05	0	4.45
Ormsby & Rhodes	52	31	15	0	2	0
OSK Accountants & Business Consultants	60	20	0	0	15	5
Russell Brennan Keane	40	20	26	1	6	7
UHY O'Connor Leddy Holmes	44	40	2	10	4	0

Appendix 3

Top 20 accountancy firms areas of strongest growth by sector

	2007	2006
Audit/Accounting	10%	35%
Consulting	25%	0%
Corporate Finance	20%	15%
Corporate Recovery	0%	0%
Other	0%	0%
Tax	25%	35%

Appendix 4

Interview guide for accounting bodies

1. Has your accounting body perceived a shift in the accounting environment from traditional accounting services such as auditing to non-traditional services such as consulting in the past ten years?
2. What does your accounting body perceive to have been the most significant impact on the auditing profession in Ireland in the last 10 years?
3. What do you see to be the greatest threat to the auditing sector in Ireland over the next ten years?
4. Does your accounting body feel that there is a role for the audit of financial statements in audit exempt companies? (Please explain why)
5. Do you feel the audit would still add value to the financial statements, if so, how?
6. As you know, the audit exemption was recently raised its thresholds under EU law, what impact do you feel this will have on the audit profession?
7. How do you feel the audit exemption has affected accounting firm's development plans for the future?
8. Does your accounting body have a strategy in place to cope with the continual rises in the audit exemption to EU levels?
9. What guidelines or training has your accounting body provided to your members since the increase of the audit thresholds?

10. What steps does your accountancy body take in order to safeguard the income of your Auditors?
11. The ICAEW launched a consultation service in 2006, which was to investigate the impact the audit exemption has had on its auditors, has your body taken any similar steps?
12. If not, is it possible your accounting body will undertake such a consultation service?
13. Countries such as the United Kingdom and America have identified a gap for providing audit exempt companies voluntary services such as a review type engagement, know as an assurance service, and other services such as a review of internal controls and company operations, risk assessments, control evaluations, or an audit of selected areas.

Do you feel it is possible such services can be provided in Ireland?

14. What issues need to be addressed concerning providing such assurance services?
15. If such services are provided in Ireland, do you feel an expectation gap will emerge on the difference between auditing and assurance services, and if so, how will this be resolved?
16. Has your accounting body provided training to your members to provide such services? If no training has been provided to date, is it possible such training will be provided?
17. Are there any other questions that you feel are relevant to this area?

18. Are there any questions in relation to the subject matter of my thesis that you feel is appropriate to ask to the top twenty accounting firms?

Appendix 5

Cover letter for survey

Dear Sir/ Madam,

Have you done your good deed for today? If not, here is your chance to make a €5 donation to charity. I am a Master's student at Letterkenny Institute of Technology and I am conducting a study of the Audit Exemption and its impact on accounting firms. The objective of this research project is to attempt to understand what impact the recent rise in Audit Exemption Thresholds has had on accounting firms. Through your participation, I hope to develop detailed conclusions, which will suggest future research.

The questionnaire should take approximately **six minutes** of your time to complete. Your response is very important, and as an incentive to complete the questionnaire I will make **a €5 donation to charity for every response received by 30 June 2007.**

To complete the questionnaire, I would be grateful if you could click on the link below and fill in the questionnaire.

Please click here: <http://www.eSurveysPro.com/Survey.aspx?id=182bbcce-a18e-4f76-af3b-74976683c27f>

I do not know of any risks to you if you decide to participate in this survey and I guarantee that your responses will not be identified with you personally nor will anyone be able to determine which company you work for.

If you have any questions or concerns about completing the questionnaire or about being in this study, you may contact me at Leona_clancy@hotmail.com. Alternatively, if you wish to receive a summary of my thesis results please do not hesitate to contact me at the above email address.

Thank you for your time it is very much appreciated.

Yours sincerely,

Leona Clancy

Appendix 6

Questionnaire: The audit exemption

Please tick one response, unless otherwise indicated:

Section A

Please state your position within the company _____

1. How many partners does your firm have?

<input type="checkbox"/> <=10	<input type="checkbox"/> 11-49	<input type="checkbox"/> >=50
-------------------------------	--------------------------------	-------------------------------

2. How many employees does your accounting firm have?

<input type="checkbox"/> <=20	<input type="checkbox"/> 21-49	<input type="checkbox"/> >=100
-------------------------------	--------------------------------	--------------------------------

3. What would you perceive to be the most important clients to your accounting firm?

<input type="checkbox"/> Small	<input type="checkbox"/> Medium	<input type="checkbox"/> Large
--------------------------------	---------------------------------	--------------------------------

4. What percentage of you staff are involved in auditing?

<input type="checkbox"/> 0%-20%	<input type="checkbox"/> 21% – 40%	<input type="checkbox"/> 41%-60%	<input type="checkbox"/> 61%-80%	<input type="checkbox"/> 81%-100%
---------------------------------	------------------------------------	----------------------------------	----------------------------------	-----------------------------------

5. What service provides the most revenue to your firm?

- Accounting
- Auditing
- Tax
- Consulting
- Corporate Recovery
- Corporate Finance
- Other, (Please Specify).....

6. Has your accounting firm perceived a shift in the accounting environment from traditional accounting services to non-traditional services such as consulting in the past ten years?

Yes	No	Do not know
-----	----	-------------

7. What do you perceive to be the greatest threat to the auditing sector in Ireland over the next ten years?

- An Auditing Scandal
- The Audit Exemption
- International Competition
- Lack of qualified auditors
- Auditors Liability
- Concentration of Auditors
- Other, Please specify.....

8. Apart from auditing, what do you see as the emerging areas of work for the accountant in practice over the next 10 years? (Please tick as apply).

- Tax Planning
- Investment Planning
- HR Consultancy
- IT Consultancy
- Business Expansion
- Financial Analysis
- Sarbanes-Oxley Act Compliance
- Other, Please Specify.....

Section B

1. What percentage of your income is derived from auditing?

0%-20%	21% – 40%	41%-60%	61%-80%	81%-100%
--------	-----------	---------	---------	----------

2. Do you feel the audit requirements have become too complex in this last ten years?

Yes	No	Do not know
-----	----	-------------

3. Do you feel the audit is still a cost effective exercise for audit exempt companies?

Yes	No	Do not know
-----	----	-------------

4. As you know, the audit exemption has recently raised its thresholds under EU law; do you feel this increase has had an impact on your accounting firm?

Yes	No	Do not know
-----	----	-------------

5. Has the rise in the audit exemption reduced the number of audits carried out by your firm?

Yes	No	Do not know
-----	----	-------------

6. What percentage of your clients has availed of the audit exemption since the thresholds have increased to the new levels?

0%-20%	21% – 40%	41%-60%	61%-80%	81%-100%
--------	-----------	---------	---------	----------

7. Has the rise in the audit exemption lead to a decrease in revenue from auditing in your accounting firm?

Yes	No	Do not know
-----	----	-------------

8. **If Yes**, what percentage of your income has decreased as a result of the rise of the audit exemption thresholds?

0%-20%	21% – 40%	41%-60%	61%-80%	81%-100%
--------	-----------	---------	---------	----------

9. Has the audit exemption issue affected your accounting firm’s development plans for the future?

Yes	No	Do not know
-----	----	-------------

10. What new or emerging areas of work will your firm try to break into over the next ten years?

- Tax Planning
- Investment Planning
- HR Consultancy
- IT Consultancy
- Business Expansion
- Financial Analysis
- Sarbanes-Oxley Act Compliance
- Other, Please Specify.....

11. Does your firm have a strategy in place to cope with the continual rises in the audit exemption to EU levels?

Yes	No	Do not know
-----	----	-------------

12. Do you feel that your firm will continue to meet the 30% audit requirement in order to train your employees to be qualified auditors?

Yes	No	Do not know
-----	----	-------------

13. Has your accountancy body provided guidance on the audit exemption since the increase in its thresholds?

Yes	No	Do not know
-----	----	-------------

14. **If Yes**, What guidance has your accounting body provided? (Please tick as apply)

- Leaflets/Booklets
- Training in availing of the Audit Exemption
- Training in supplementing Audit work
- Up-skilling and Retraining
- Seminars

Countries such as the United Kingdom and America have identified a gap for providing audit exempt companies voluntary services such as a review type engagement, know as an assurance service, as well as other services such as a review of internal controls and company operations, risk assessments, control evaluations, or an audit of selected areas.

15. Do you feel it is possible such services could be provided in Ireland?

Yes	No	Do not know
-----	----	-------------

16. Do you feel this could be a viable substitute for companies who have felt a loss of income from the rise in the audit exemption thresholds?

Yes	No	Do not know
-----	----	-------------

17. Do you feel a demand would exist for such services with audit exempt companies?

Yes	No	Do not know
-----	----	-------------

18. Would your accounting firm be interested in providing such services to your clients?

Yes	No	Do not know
-----	----	-------------

19. What issues to you feel would need to be addressed with regards to providing such assurance services? (Please tick as apply)

- Liability
- Independence
- Quality Checks
- Competence
- Training
- Expectation Gap
- Other, Please Specify.....

20. Have you any suggestions how these issues could be addressed?

.....

.....

.....

.....

21. If such services are provided in Ireland, do you feel an expectation gap will emerge on the difference between auditing and assurance services?

Yes	No	Do not know
-----	----	-------------

22. Do you feel these assurances services would help narrow or broaden the audit expectation gap?

Narrow	Broaden	Do not know
--------	---------	-------------

23. Do you feel your accounting firm will continue to provide audit services to your clients in the coming years?

Yes	No	Do not know
-----	----	-------------

Thank you for taking the time to complete this questionnaire

Please use this space for any comments on the issues contained in this questionnaire

Appendix 7

Summary of results from questionnaire

Table 7.1 Response rates

	Responses received	Percentage of total
Response received	10	50%
Responses not received	10	50%
Total sent	20	100%

Table 7.2



Please state your position in the firm:		% of Respondents	Number of Respondents
Audit partner		90.00%	9
Audit manager		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.3




1. How many partners does your firm have?		% of Respondents	Number of Respondents
<=10		60.00%	6
11-49		20.00%	2
> =50		20.00%	2
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.4


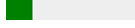


2. How many employees does your accounting firm have?		% of Respondents	Number of Respondents
<=20		0.00%	0
21-49		20.00%	2
50-99		40.00%	4
> =100		60.00%	6
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.5




3. What would you perceive to be the most important clients to your accounting firm?		% of Respondents	Number of Respondents
Small		20.00%	2
Medium		50.00%	5
Large		30.00%	3
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.6


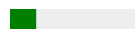

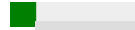
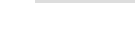
4. What percentage of you staff are involved in Auditing?	% of Respondents	Number of Respondents
0%-20%	 0.00%	0
21%-40%	 20.00%	2
41%-60%	 60.00%	6
61%-80%	 20.00%	2
81%-100%	 0.00%	0
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.7




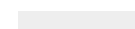
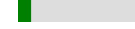
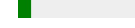
5. What service provides the most revenue to your firm?	% of Respondents	Number of Respondents
Accounting	 10.00%	1
Auditing	 50.00%	5
Tax	 20.00%	2
Consulting	 0.00%	0
Corporate recovery	 10.00%	1
Corporate finance	 10.00%	1
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.8




6. Has your accountancy firm perceived a shift in the accounting environment from traditional accounting services, such as accounting and auditing to nontraditional services such as consulting in the past ten years?	% of Respondents	Number of Respondents
Yes	 70.00%	7
No	 30.00%	3
Do not know	 0.00%	0
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.9



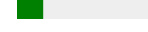
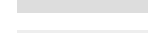
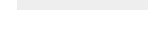

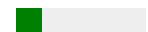
7. What do you perceive to be the greatest threat to the auditing sector in Ireland over the next ten years?	% of Respondents	Number of Respondents
An Auditing Scandal	 40.00%	4
The Audit Exemption	 20.00%	2
International Competition	 0.00%	0
Lack of qualified auditors	 0.00%	0
Auditors Liability	 10.00%	1
Concentration of Auditors	 20.00%	2
Non Detection of Fraud / Damage of Image	 10.00%	1
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.10

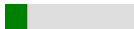
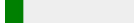

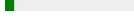
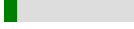
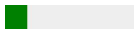


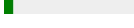
8. Apart from auditing, What do you see as the emerging areas of work for the accountant in practice over the next 10 years? (Please tick as apply).	% of Respondents	Number of Respondents
Tax planning 	17.24%	5
Investment planning 	13.79%	4
HR consultancy 	0.00%	0
IT consultancy 	6.90%	2
Business expansion 	10.34%	3
Financial analysis 	17.24%	5
Accounting advice 	13.79%	4
Sarbanes-Oxley act compliance / internal control evaluation 	13.79%	4
Other 	6.90%	2
Other		
Advisory	3.45%	1
Risk management, finance function effectiveness, internal audit, transition services	3.45%	1
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.11


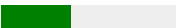

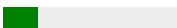

1. What percentage of your income is derived from Auditing?		% of Respondents	Number of Respondents
0%-20%		0.00%	0
21%-40%		40.00%	4
41%-60%		40.00%	4
61%-80%		20.00%	2
81%-100%		0.00%	0
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.12




2. Do you feel the audit requirements have become too complex in this last ten years?		% of Respondents	Number of Respondents
Yes		50.00%	5
No		50.00%	5
Do not know		0.00%	0
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.13



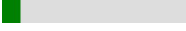
3. Do you feel the audit is still a cost effective exercise for audit exempt companies?		% of Respondents	Number of Respondents
Yes		50.00%	5
No		40.00%	4
Do not know		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.14




4. As you know, the audit exemption has recently raised its thresholds under EU law; do you feel this increase has had an impact on your accounting firm?		% of Respondents	Number of Respondents
Yes		50.00%	5
No		40.00%	4
Do not know		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.15




5. Has the rise in the audit exemption reduced the number of audits carried out by your firm?		% of Respondents	Number of Respondents
Yes		50.00%	5
No		40.00%	4
Do not know		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.16


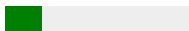

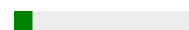

6. What percentage of your clients has availed of the audit exemption since the thresholds have increased to the new levels?		% of Respondents	Number of Respondents
0%-20%		50.00%	5
21%-40%		20.00%	2
41%-60%		10.00%	1
61%-80%		10.00%	1
81%-100%		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.17




7. Has the rise in the audit exemption lead to a decrease in revenue from auditing in your accounting firm?	% of Respondents	Number of Respondents
Yes 	40.00%	4
No 	50.00%	5
Do not know 	10.00%	1
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.18


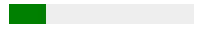

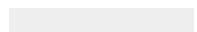

8. If Yes, what percentage of your income has decreased as a result of the rise of the audit exemption thresholds?	% of Respondents	Number of Respondents
0%-20% 	60.00%	3
21%-40% 	20.00%	1
41%-60% 	20.00%	1
61%-80% 	0.00%	0
81%-100% 	0.00%	0
Number of respondents		5
Number or respondents who skipped this question		5

Table 7.19




9. Has the audit exemption issue affected your accounting firm's development plans for the future?		% of Respondents	Number of Respondents
Yes		30.00%	3
No		70.00%	7
Do not know		0.00%	0
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.20


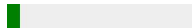
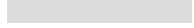
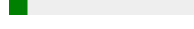



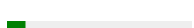
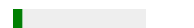
10. What new or emerging areas of work will your firm try to break into over the next ten years?		% of Respondents	Number of Respondents
Tax planning		23.33%	7
Investment planning		6.67%	2
HR consultancy		0.00%	0
IT consultancy		10.00%	3
Business expansion		13.33%	4
Financial analysis		13.33%	4
Accounting advice		16.67%	5
Sarbanes-Oxley act compliance / internal control evaluation		10.00%	3
Other		6.67%	2
Other			
Advisory		3.33%	1
Risk Management, Transition Services, Internal audit, finance function effectiveness, performance improvement, outsourcing		3.33%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.21




11. Does your firm have a strategy in place to cope with the continual rises in the audit exemption to EU levels?	% of Respondents	Number of Respondents
Yes	 50.00%	5
No	 30.00%	3
Do not know	 20.00%	2
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.22


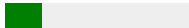
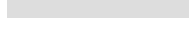
12. Do you feel that your firm will continue to meet the 30% audit requirement in order to train your employees to be qualified auditors?	% of Respondents	Number of Respondents
Yes	 80.00%	8
No	 20.00%	2
Do not know	 0.00%	0
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.23


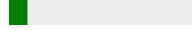

13. Has your accountancy body provided guidance on the audit exemption since the increase in its thresholds?	% of Respondents	Number of Respondents
Yes	 70.00%	7
No	 10.00%	1
Do not know	 20.00%	2
Number of respondents		10
Number or respondents who skipped this question		0

Table 7.24




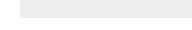

14. If Yes, What guidance has your accounting body provided? (Please tick as apply)	% of Respondents	Number of Respondents
Leaflets/Booklets	 66.67%	6
Training in availing of the Audit Exemption	 0.00%	0
Training in supplementing Audit work	 0.00%	0
Up-skilling and Retraining	 0.00%	0
Seminars	 33.33%	3
Number of respondents		7
Number or respondents who skipped this question		3

Table 7.25

Countries such as the United Kingdom and America have identified a gap for providing audit exempt companies voluntary services such as a review type engagement, know as an assurance service, as well as other services such as a review of internal controls and company operations, risk assessments, control evaluations, or an audit of selected areas.

15. Do you feel it is possible such services could be provided in Ireland?




		% of Respondents	Number of Respondents
Yes		90.00%	9
No		0.00%	0
Do not know		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.26

16. Do you feel this could be a viable substitute for companies who have felt a loss of income from the rise in the audit exemption thresholds?




		% of Respondents	Number of Respondents
Yes		70.00%	7
No		10.00%	1
Do not know		20.00%	2
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.27


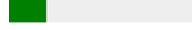

17. Do you feel a demand would exist for such services with audit exempt companies?		% of Respondents	Number of Respondents
Yes		50.00%	5
No		20.00%	2
Do not know		30.00%	3
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.28




18. Would your accounting firm be interested in providing such services to your clients?		% of Respondents	Number of Respondents
Yes		90.00%	9
No		0.00%	0
Do not know		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.29


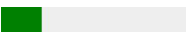
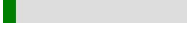
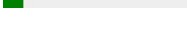

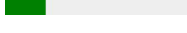
19. What issues to you feel would need to be addressed with regards to providing such assurance services? (Please tick as apply)		% of Respondents	Number of Respondents
Liability		22.22%	6
Independence		22.22%	6
Quality checks		7.41%	2
Competence		11.11%	3
Training		14.81%	4
Expectation gap		22.22%	6
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.30

		% of Respondents	Number of Respondents
20. Have you any suggestions how these issues could be addressed?			
1. Further training and communication with clients		10.00%	1
2. Education of audit expectation gap		10.00%	1
3. Training from the accounting bodies. Competence would need to be endured. Liability covered with a disclaimer of some sort, specify area assurance given on.		10.00%	1
4. Additional standards and guidance issued by relevant bodies		10.00%	1
5. Clear definition of what assurance services are; clause in audit report to cover liability		10.00%	1
6. No		10.00%	1
7. Liability would need addressed, maybe a cap		10.00%	1
8. Clearly set out scope in letter of engagement and report issues afterwards		10.00%	1
9. Don't know		10.00%	1
10. Similarly to how they are currently dealt with for the audit purposes.		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.31


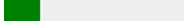

21. If such services are provided in Ireland, do you feel an expectation gap will arise to the client on the difference between auditing and assurance services?		% of Respondents	Number of Respondents
Yes		70.00%	7
No		20.00%	2
Do not know		10.00%	1
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.32


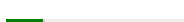
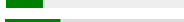


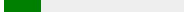
22. Do you feel that if assurances services were introduced they would help narrow or broaden the audit expectation gap of the client?		% of Respondents	Number of Respondents
Narrow		50.00%	5
Broaden		20.00%	2
Do not know		30.00%	3
Number of respondents			10
Number or respondents who skipped this question			0

Table 7.33

23. Do you feel your accounting firm will continue to provide audit services to your clients in the coming years?		% of Respondents	Number of Respondents
Yes		80.00%	8
No		20.00%	2
Do not know		0.00%	0
Number of respondents			10
Number or respondents who skipped this question			0

Appendix 8

List of Abbreviations

- AAA American Accounting Association
- ACCA Association of Chartered Certified Accountants
- AICPA America Institute of Certified Public Accountants
- AICPA American Institute of Certified Public Accountants
- APB Auditing Practices Board
- BERR Business Enterprise and Regulatory Reform
- CICA Canadian Institute of Chartered Accountants
- CPA Certified Public Accountants
- DTI Department of Trade and Industry
- EU European Union
- IAASA Irish Auditing & Accounting Supervisory Authority
- IAASB International Auditing and Assurance Standards Board
- ICAA Institute of Chartered Accountants in Australia
- ICAEW Institute of Chartered Accountants England and Wales
- ICAI Institute of Chartered Accountants Ireland
- IPR Independent Professional Review
- ISAE International Standards on Assurance Engagements
- NI Northern Ireland
- OECD Organisation for Economic Co-operation and Development
- POB Professional Oversight Board
- SAICA South African Institute of Chartered Accountants
- SBF Small Business Forum
- SME Small and Medium-sized Enterprises
- SMPC Small and Medium Practices Committee
- UK United Kingdom
- US United States of America