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*A qualitative Investigation of
Corporate Governance in Irish
PLC's:
The perceptions of Auditors*

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for the Degree of Master of Arts in Accounting

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Abstract

Corporate governance was dominated by corporate scandals across the world involving such companies as Enron, WorldCom, Tyco, Parmalat, Polly Peck, and Maxwell. Over the last two decades a number of reports have been commissioned into the subject of corporate governance and as a result a number of codes of best practice have emerged worldwide. Following these reports, the Financial Reporting Council issued the combined code on corporate governance, which is adopted by the Irish stock exchange. Furthermore, since 2001 in Ireland there have been significant regulation and legislation initiatives made to enhance corporate governance. The objective of this dissertation is to examine the auditors' perceptions of corporate governance in Irish PLC's.

The literature review presents a comprehensive overview of the evolution of corporate governance and outlines US and Irish legislation regarding corporate governance. It also outlines the importance of auditors and their key role regarding corporate governance. The primary research for this dissertation was undertaken through five semi-structured interviews with audit partners from the four largest audit practices in Ireland based on fee income.

The research revealed auditors are in favour of the "comply or explain" approach to corporate governance and that Ireland should adopt a stakeholder approach to corporate governance. Additionally, the research revealed that auditors' believe that the board of directors have a key role in relation to corporate governance and that the mechanisms introduced in the combined code are all good. The main problem is in relation to non compliance with the combined code and the auditors favoured introducing a monitoring body in relation to non compliance. Furthermore, the research uncovered that auditors felt there was too much legislation in Ireland and that auditing was become a "box ticking exercise". The auditors' also suggested that they would think twice about pursuing a career in auditing in the current environment. Finally, the research revealed that auditors' consider it is essential to have someone with financial experience on the audit committee to challenge managers and auditors therefore enhancing corporate governance.

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List of Abbreviations

APB	Audit Practice Board
CEO	Chief Executive Officer
CG	Corporate Governance
CLRG	Company Law Review Group
DCS	Directors Compliance Statement
DETE	Department of Enterprise Trade and Employment
DIRT	Deposit Interest Retention Tax
DTI	Department of Trade and Industry
FRC	Financial Reporting Council
IAASA	Irish Audit and Accounting Supervisory Board
ICAEW	Institute of Chartered Accountants England and Wales
ICAI	Institute of Chartered Accountants Ireland
ISE	Irish Stock Exchange
NED	Non Executive Director
ODCE	Office Director of Corporate Enforcement
OECD	Organisation for Economic Co-Operation and Development
PAC	Public Accounts Committee
PCAOB	Public Company Accounting Oversight Board
PLC	Public Limited Company
SEC	Securities and Exchange Commission
SOX	Sarbanes Oxley
UK	United Kingdom
US	United States

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1 Introduction

Interest in Corporate Governance (CG), and the associated codes of best practice, has grown considerably in the last two decades since the publication of the Cadbury report in 1992. Following the collapse of Enron in December 2001 in the US, which led to the demise of one of the world's big five auditing practices Arthur Andersen. Furthermore, scandals including the collapse of WorldCom and Parmalat have led to the consideration of more formal regulation of CG and additionally of auditing.

Additionally, James D Wolfensohn (1999:p14), President of the World Bank states that "proper governance of companies will become as crucial to the world economies as proper governing of countries". The purpose of CG is the accountability of those in control of the companies to those with financial interest in corporation. This can be expanded when the company is approaching insolvency to include stakeholders.

Auditing is a crucial element necessary for CG systems to operate effectively. Auditors are the primary providers of quality information to shareholders and stakeholders. The directors of the company should prepare the financial statements in compliance with financial reporting standards, and stakeholders rely on auditors to ensure the financial statements give a true and fair view.

Since 2001, there have been significant regulation and legislation initiatives made to address CG in Ireland. The recent legislation and regulatory initiatives in Ireland include the Company Law Enforcement Act 2001, which provided for the establishment of the Office Director of Corporate Enforcement (ODCE), and the companies (Auditing and Accounting) Act 2003, which established the Irish Auditing and Accounting Supervisory Authority (IAASA). These Acts have had a significant number of provisions which have had a major impact on auditors.

1.1 Research Aims and objectives

The research question of this thesis reads: *what are the perceptions of Auditors in Ireland in relation to CG in Irish plc's?*

The research question can be further refined into research objectives. Research objectives are the key elements that must be answered to complete the researcher's thesis. The research aim can be broken down into the following objectives:

1. To investigate the perceptions of auditors to the key elements of CG.
2. To establish the perceptions of auditors on CG mechanisms established in the combined code.
3. To establish the perceptions of auditors to the CG legislation and regulations in Ireland.
4. To establish the perceptions of Auditors between the combined code and Sarbanes Oxley approaches.
5. To establish ways in the opinion of auditors that CG could be changed for the better in Ireland.

The researcher has chosen these objectives in an attempt to establish a qualitative perspective to Irish CG.

1.2 Rational for undertaking the research

The recent government assistance to aid the banking sector and the corporate scandals that took place regarding FAS and Anglo Irish Bank have caused criticism of CG and the role of the auditing profession in Ireland.

“CG doesn't work in Irish society, auditing and remuneration committees are appointed from the weakest people on the board, who will say yes to everything”.

(O'Keeffe, 2008)

Furthermore, O’Keeffe questioned the independence of auditors in relation to the banks and announced concerns for investors. This indicates that there are concerns in relation to CG in an Irish context. Additionally, recent CG problems associated with the FAS board with regards expenses further imply this.

“The members of the FAS board should have known about the misuse of taxpayer’s money, and if they did know and failed to act they were guilty of gross CG”.

(Kenny, 2008)

In addition, research conducted by Grant Thornton (2009) regarding Irish PLC’s compliance with the Combined Code found that 19 of a total 39 plc’s admitted that they were not fully compliant. The results of this report have had a major effect in relation to investors’ confidence in relation to Irish PLC’s. The report also suggested that if the combined code was complied with, recent corporate scandals could have been prevented. Additionally, the report recommends that the combined code should become legislation in the current economic situation.

In answering the research objectives, the researcher feels it will establish a different perspective in relation to CG in Ireland. This research will be of interest to accountants, auditors, directors, shareholders, regulatory bodies and the government. It will benefit these individuals as it is qualitative, topical and relevant to the current economic situation of Ireland.

1.3 Chapter Outline

Chapter two, reviews current literature in relation to the evolution of CG in Ireland and other countries and also the major corporate scandals that contributed to the reform of CG. The research methodology is outlined in detail in chapter three and the findings and analysis of the semi structured interviews are described in chapter four. Finally the conclusions and recommendations to this research are discussed in chapter five.

2 Literature Review

2.1 Introduction

According to La Porta et al (1999) CG is substantially influenced by the country in which the company resides due to the different legal obligations. Governance mechanisms of high importance in one country may be less important in another. This chapter defines CG and traces the development of various codes of CG from Cadbury report 1992 to the Combined Code 2003. It also provides an overview of the US and Irish legislation in relation to enhancing CG. Finally, this chapter discusses the role of the auditor regarding CG.

2.2 Defining Corporate Governance

The term CG has become one of the most commonly used phrases in the current global business vocabulary, (Solomon J., 2007). There are many definitions and interpretations of CG that incorporate many theories. The fundamental problem is the separation of ownership and control, which prevents shareholders and other stakeholders from controlling the company directly. The Cadbury Report (1992:p14) defines CG “as the system by which companies are directed and controlled”.

However, Tricker’s definition conflicts Cadbury’s definition. Tricker (1984) (cited by Chambers, 2008:p196) states “the governance role is not concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries”.

However, the Organisation for Economic Co-operation and Development (OECD) principles of CG, (1999) definition is similar to that of Cadbury (1992). Furthermore, the OECD definition insinuates that there is a relationship between the board and both the shareholders and stakeholders.

“CG is the system by which business corporations are directed and controlled. The CG structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance”

(OECD, 1999)

The OECD definition is more structured towards the modern CG debate regarding shareholders and stakeholders. This revolves around the accountability of those in control of companies to those with financial interest. Therefore these definitions establish that there are different concepts, elements and roles of CG.

Finally, it is important to consider the legislation and regulation which the company is legally obliged to comply with. This will mainly be compliance with national legislation, company law and listing requirements. Rezaee (2008) incorporates the legislative framework of CG into his definition, while also listing the participants involved in the process.

“The process affected by a set of legislation, regulatory, legal, market mechanisms, listing standards, best practises, and efforts of all CG participants, including the company’s directors, officers, auditors, legal counsel, and financial advisors, which creates a system of checks and balances with the goal of creating, enhancing and sustainable shareholders value, while protecting the interest of other stakeholders”.

(Rezaee, 2008:p30)

The significance of CG for the stability of society is captured in the broader definition offered by Cadbury (2002:p11), "CG is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient

use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as near as possible the interests of individuals, corporations and society."

While currently there is no generally accepted definition of CG, the key elements from reviewing the literature are that a definition should incorporate the board of directors and the legislation and regulation used to ensure the accountability and transparency to the participants, either shareholder or stakeholders.

2.3 Theories of CG

Much of the debate on CG has centred on practical issues, including corporate fraud, the abuse of managerial power and social irresponsibility (Letza et al, 2004). Modern CG can be separated into two perspectives with contrasting paradigms: shareholder and stakeholder (O'Sullivan (2000); Friedman and Mills (2002). The shareholder theory focuses on the shareholder value creation and enhancement goal of CG, whereas the stakeholder theory emphasises the value protection goal of all stakeholders.

2.3.1 Shareholder theory

The shareholder (principal-agency) theory is based on the shareholders (principals) who provide capital to the company which is run by management (agents), (Jensen and Meckling, 1976). The problems arise from this model due to the separation of ownership and control and information asymmetry, also known as agency costs. According to the principal-agency theory, the primary objective of a company is to maximise shareholders' wealth. Thus the role of CG is to ensure the enhancement of shareholder wealth and to align the interest of management with those of the shareholders.

2.3.2 Stakeholder theory

Additionally, Freeman (1984) suggested that a firm should incorporate corporate accountability to a broad range of stakeholders. The case for the stakeholder theory is that companies are so large and their impact on society is so significant that they should be accountable to more of society than just shareholders.

Stakeholders should incorporate various economic and corporate participants who may have direct or indirect interests in a company. Stakeholders include shareholders, directors, managers, employees, creditors, suppliers, customers, local communities, government and the general public.

Rezaee (2008) believes CG should create a right balance of power sharing among all CG participants, particularly shareholders, directors and management, driven by the responsibility to create and enhance long term shareholder value while protecting the interest of other stakeholders.

Therefore, modern CG emphasises both financial aspects of increasing shareholder value and an integrated approach that considers the rights and interest of stakeholders. Accordingly, Wheeler and Sillanpaa (1997) companies which are run with a view to the long term interests of their key stakeholders are more likely to prosper than those which take a short term, 'shareholder first' approach.

2.4 Corporate Failures and Scandals

Furthermore, CG was dominated by financial scandals all around the world involving companies such as Enron, WorldCom, Tyco, Maxwell and Parmalat. All of the major accounting firms had clients who were involved in these, which led to the demise of Arthur Andersen. The researcher shall discuss some of the major corporate scandals to emphasis the role of CG in today's modern business environment. Also, this will enhance the reader's appreciation of the auditor's role in CG and how these corporate scandals affected auditors.

2.4.1 Enron

On the 2nd of December 2001, Enron Corporation in the US, one of the world's largest energy groups filed for bankruptcy. According to Cullinan, (2004:p859) "The company used a complex organisational structure as a means of obstructing the impact of complex transactions". Special Purpose Entities (SPE) allowed Enron to record a sale in its financial statements, thus misstating financial statements and increasing profits. Barboza (2002) reveals Enron's financial statements may have been misstated by as much as \$24 billion. This caused

enormous losses for investors and stakeholders, particularly employees who not only lost their jobs but their pensions that were invested in Enron stock. Additionally, Rezaee (2005) suggests financial statement fraud committed by Enron is estimated to have caused a loss of about \$70 billion in market capitalisation, this emphasises the need for stakeholder theory in regards CG.

Vinten (2002) believes the auditors Arthur Andersen encouraged the company's highly questionable practices. Eichenwald and Glatler (2002) suggest the audit partner in charge of Enron, ignored audit staff regarding the treatment of the SPE transactions. The fall of Enron was the biggest corporate downfall and the demise of Arthur Andersen emphasises the need for good CG and the significance the auditor has regarding CG.

2.4.2 WorldCom

Shortly after Enron's failure, WorldCom filed for bankruptcy. WorldCom was "Involved in a very aggressive Interpretation of Generally Accepted Accounting Principles (GAAP) for the classification of expenditure of assets, rather than as expenses, which misstated income for 2001 by approximately US\$3.8 billion", (Cullinan, 2002:p860). Empirical evidence suggests that the auditors failed in their role as an external mechanism of CG. The WorldCom failure, is the biggest bankruptcy in the US history, this is relation to its assets \$107 billion ahead of Enron who has an estimated \$63 billion in assets. Carson (2003:p393) believes "The deception involved in the cases in question succeeded only because internal and external auditors at Enron and WorldCom gave dishonest reports and violated the ethical norms of their profession". Furthermore, trust in the financial statements and in the auditors' as "watchdogs" of the financial markets was threatened (Baker et al, 2006).

2.4.3 Maxwell

Maxwell International was the main CG scandal to affect the United Kingdom (UK). The Maxwell case involved the aggressive abuse of company's pension funds. The case was described by Stiles and Taylor (1993:p34) as "The greatest fraud of this century".

Robert Maxwell was responsible for the corporation's downfall, due to pledging shares in the company's pension funds as collateral for future loans. The Department of Trade and Industry (DTI) carried out an investigation of the financial irregularities in Maxwell. The 2001 report by the DTI states exactly what Maxwell had done:

“Cash was borrowed by the private side on a regular and unsecure basis from the pension funds beginning in 1985. The accounts were window dressed with balances brought to nil at the financial year end to avoid disclosure”, (DTI, 2001:p6).

The DTI report in 2001 was highly critical of the auditors regarding the financial irregularities, which affected many pensioners and investors. The DTI report questions the auditor's role as an external mechanism in relation to public confidence. Additionally, the report recommended there should be guidance in relation to auditing business empires and narrowing the audit expectation gap.

2.4.4 Irish Corporate Failures

To establish the evolution of CG in Ireland it is essential to mention the CG failures in Ireland. The main corporate failures in Ireland are in relation to the DIRT (Deposit Interest Retention Tax) inquiry, the Ansbacher report and the more recent Anglo Irish Bank scenario.

2.4.4.1 The DIRT Inquiry

The DIRT corporate scandal was in relation to tax evasions between 1986-1998. This established the Public Accounts Committee (PAC) to undertake an investigation into fictitious non resident accounts. The investigation into the DIRT tax evasion had serious effects on the accounting and auditing professions. The Irish financial institutions were advising customers to avoid tax by establishing non resident accounts, McCormack and Gillian (2001). Furthermore, Kinsella (2002) indicates that accountants and bankers were advising clients to avoid DIRT payments in these non resident accounts. This CG failure had a severe affect on

the financial institution and the auditing profession. The report on the DIRT inquiry by the PAC (1999) criticised the auditors' and suggested there were weaknesses in relation to the role of the external auditor.

2.4.4.2 The Ansbacher Report

Following the DIRT scandal came the Ansbacher report, this report exposed some of Ireland's most established business people and politicians in relation to tax evasion. The Ansbacher Report reveals that these elite group of people avoided tax by lodging funds into Ansbacher (Cayman) limited. The DIRT and Ansbacher reports seriously affected the public and investor confidence in relation to financial institutions, auditors and the ethics of senior figures in Irish society. As a result of these corporate scandals the Irish government decided to enhance CG, especially in relation to regulation and compliance.

2.4.4.3 Recent Irish Corporate scandals

More recent CG scandals such as the nationalisation of Anglo Irish bank and the role of the FAS board in relation to certain expenses have led to questioning the role of CG and the role of the auditors in relation to Ireland. Anglo Irish bank implicated a loan scandal relating to its chairman Sean Fitzpatrick. This has affected public confidence in relation to the Irish banking system and has led many newspapers to label Anglo as the 'Irish Enron' and that those responsible should be held accountable.

2.5 The Corporate Governance Reform

As a result of these corporate scandals there have been many reforms in relation to improving CG. A number of the key reports have been significant in relation to the reform of CG and the issuance of the Combined Code of CG (appendix A).

2.5.1 The Cadbury Report

Following a series of unexpected UK CG collapses (Polly Peck, BCCI and Maxwell) the committee on the financial aspects of CG was established. The committee was chaired by Sir Adrian Cadbury with the mandate of addressing the structure and responsibilities of the board of directors; increasing the value and

effectiveness of the audit and the relationship between the board and shareholders and the responsibilities of institutional shareholders, Dedman (2002).

The Cadbury report (1992) encouraged companies to alter the structure of their boards, separating the roles of the CEO and the chairman and setting a minimum limit of three Non Executive Directors (NED's). The code also suggests that firms establish audit committees consisting entirely of NED's.

The Cadbury report established the foundations of a set of CG codes, not just in the UK but in countries all over the world, which incorporated its main principles into their own CG codes. The significance of the Cadbury report is recapitulated by Jones and Pollit (2004:p3):

“The quality of the Cadbury report's conclusions and implementations lies in the fact that the report is internationally recognised as having been seminal in the development of CG in the UK and elsewhere”

2.5.2 The Greenbury report

Following the Cadbury report, the Confederation of British industry established a committee in 1995 chaired by Sir Richard Greenbury. This committee was set up due to the public and shareholders response to directors' remuneration. The committee was to identify good practice in determining directors' remuneration and prepare a code of such practice for use by PLC's.

The Greenbury report (1995) established the remuneration committee; the report suggested the remuneration committee should consist exclusively of NED's with a minimum number of three. The Greenbury report was not established to reduce director's salaries, but rather establish a balance between director's remuneration and their performance. The combined code (B.1) states that “levels of remuneration should be sufficient to attract, retain and motivate directors of the quality to run the company successfully”

2.5.3 The Hampel Report

The Hampel committee followed both the Cadbury and Greenbury report. It was chaired by Sir Ronald Hampel, who described the committees work as a “fine tuning exercise” in relation to the Cadbury and Greenbury reports.

The Hampel committee established a code of best practice of CG in relation to UK listed companies. The Hampel Committees report was published in January 1998, the report broadly agreed with the recommendations of both its predecessors.

To supplement their own report, the Hampel committee produced a set of principles and codes which embraced the preceding reports. This established the publication of the Combined Code of CG (1998), which consisted of a series of principles of good CG. The code was incorporated into the London stock exchange in 1998. Additionally, the Irish Stock Exchange (ISE) incorporated the combined code under its listing requirements in 1998.

2.5.4 The Turnbull report

The Turnbull committee was established by ICAEW specifically to address the issue of internal controls and to respond to provisions made in the combined Code (1998). In these provisions, the Code stated that the companies’ directors should conduct a review of the effectiveness of the internal control systems and should report this information to the shareholders. The Turnbull guidance was revised by the FRC and new guidance published in October 2005. This is the Combined Codes adaptation of section 404 of the Sarbanes Oxley Act in the US.

2.5.5 The Higgs reports

Following, the collapse of Enron in 2001 there was a need to enhance CG. This caused the UK and other countries to evaluate their CG system in an attempt to prevent such failures as Enron and WorldCom. In the UK the DTI established committees to examine whether changes were necessary for the regulation of UK Audit and CG, Dewing and Russell (2003).

In April 2002, Derek Higgs was appointed to undertake a review into the role and effectiveness on NED's. Donnelly and Mulcahy (2008) reports that boards comprising more NED's in Ireland disclose more voluntary information in their annual reports.

Additionally, the main recommendations regarding the Higgs report were that at least half the board, excluding the chairman should be independent NED's. The roles of the chairman and chief executive directors should be strengthened. A chief executive of the company should not become the chairman. A senior independent director should be identified who should be available to shareholders, if they have concerns that have not been resolved through the normal channels of contact with the chairman or CEO. The senior independent director should attend meetings of management with a range of major shareholders to develop a balanced understanding of shareholder concerns. These concerns should then be communicated to the board of directors.

2.5.6 The Smith report

In September 2002, Sir Robert Smith chaired the Smith committee, its term of reference were to develop existing guidance for audit committees contained in the Combined Code. In the case of Enron, the failure of the audit committee and internal audit function was of the main causes of the company's collapse. The Smith report was published in January 2003 and contained proposed guidance on audit committees and proposed new code provisions on audit committees.

The main recommendations of the Smith Report were that audit committees should consist of "Independent" NED's and at least one member should have significant recent and relevant financial experience. The roles and responsibilities of the audit committee should be set out in written terms of reference. The audit committee should be provided with sufficient resources to undertake its duties. The directors' report should contain a separate section about the role and work of the audit committee.

2.5.7 The Combined Code on Corporate Governance

In 2003 the UK government announced that the Financial Reporting Council (FRC) would take forward the recommendations of both the Higgs and Smith report in an attempt to redraft the Combined Code. According to Tassel (2003) (cited by Solomon 2007) this was “the biggest shake up of boardroom culture in more than a decade”. The need for the FRC to incorporate the Higgs and Smith reports into the Combined Code was acknowledged by Brennan (2003:P12):

“The key to successful CG is independence of boards and of individual NED’s. If the changes recommended by Smith and Higgs are adopted, CG will be considerable enhanced”.

On the 1st of July 2003, the FRC published the revised Combined Code. The code incorporated all of the above reports to establish a code of best practice. The code set out best practice relating to the Board of Directors, Directors Remuneration, Audit committees and Auditors relations to shareholders and disclosures (see appendix B).

2.6 The Irish Stock Exchange

The ISE requires that all Irish PLC’s must disclose a statement in their annual reports on their compliance with the combined code on CG. Irish PLC’s are required to explain how they apply the principles of the code and state whether or not they complied with the code, if the latter is the case they must disclose reason for non compliance. This is established in the ISE listing requirements section (6.8.7) and is referred to as the “comply or explain” approach.

In relation to the “comply or explain” approach Dewing and Russell (2004) argues that there should be more enforcement in relation to non compliance with the combined code. They recommend that a regulation body should be established in relation to compliance. Additionally, Dewing and Russell (2004:p114) states “this would not necessarily mean a return to the old-fashioned command and control regulation, but rather a sustained and focused control exercise by a public

agency”. Furthermore, Grant Thornton (2009) believe the “comply or explain” approach is no longer appropriate and it should be adopted into legislation.

2.7 The Sarbanes Oxley Act (2002)

The Sarbanes-Oxley (SOX) Act was enacted to address accounting scandals and failures of CG (Foster et al, 2007). The researcher aims to develop the understanding of the differences between the SOX legislation and the Combined Code and discuss how the different legislation has affected the auditor’s role.

Following Enron and other corporate scandals in the USA, the Securities and Exchange Commission (SEC) published legislation known as the SOX Act 2002. The primary goal of SOX is to improve the quality of CG and thus increase investor confidence in financial markets (Hall and Gaetanos, 2006). The Act established new CG standards for directors and the board, Public Company Accounting Oversight Board (PCAOB) for independent statutory regulation of the auditing profession, and rigorous new rules to ensure the independence of auditors.

Section 101 of SOX Act established the PCAOB; the main functions are in relation to standards on auditing, quality control and ethics. The board is also empowered to investigate and discipline accounting firms and public accountants. Furthermore, Section 404 forced companies’ external auditors to audit and report on the internal control reports produced by management. O’Shea and Brownlee, (2007) state that the SEC are reviewing guidance on section 404 aimed at improving effectiveness and efficiency by adopting a principles based, top down risk approach regarding internal controls. Tackeet et al (2006) believe SOX and particular section 404 is the most costly pieces of business legislation ever passed. Additionally, the SOX Act addressed issues regarding auditor’s independence. Section 201 of the Act, prohibits an auditor from conducting certain consulting services (non audit services) for their audit clients. Furthermore, the auditor rotation requirement was further tightened from seven to five years. Moreover section 206, restricts audit firms from serving as auditor for 1 year if the chief

executive officer or comparable individual of the audited company participated in any capacity in the company's audit while employed by the audit firm.

Additionally, the Act requires that all PLC's must establish audit committees. The audit committee is directly responsible for appointing, overseeing and determining the compensation of external auditors. Cullinan (2004) suggests the SOX Act can be viewed as a legislative set-back for the accounting profession in relation to regulation. Furthermore, Dnes (2005) agrees and suggest that more of the responsibility should be placed on directors rather than auditors.

Unlike Ireland, the US adopts a rules based approach to CG. This means that it is compulsory for all PLC's to comply with the SOX Act. This is compared to the principles based approach "comply or explain" adopted in Ireland. Nagy and Cenker (2007) conducted interviews with audit partners in America to discuss the effects the SOX Act had on their profession. The auditors revealed that compliance had increased but that there was too much legislation. This simultaneously was affecting the audit firm's resources, increasing audit cost and caused many of the audit partners to question as to whether or not they would pursue a career in auditing in the current environment. A study undertaken by Reason (2005) reiterates these points.

Dnes (2005) suggests the combined code "less legislative, self regulated, code based approach" is a superior approach to CG. Petra et al (2006) believes that the SOX Act is too prescriptive and revealed that Enron and WorldCom satisfied at least half the reforms. Whereas, Gettler (2006) views SOX as a "box ticking exercise" and undermining trust, thus more meaningful improvements should be made in relation to CG.

2.8 Corporate Governance in Ireland

The researcher shall review the main legislative and regulatory bodies that have been essential in enhancing CG in Ireland. Furthermore, the researcher will discuss the significance of these in relation to the accounting profession in Ireland particularly the role of the auditors in Irish PLC's.

2.8.1 The Review Group on Auditing

Following on from the PAC (DIRT Inquiry) and the other corporate scandals in the late 1990's, the Tánaiste and Minister for Enterprise, Trade and Employment at the time Mary Harney decided to address these issues. In relation to the Irish CG reform the Tánaiste announced on the 29th of December 1999 that the government would establish a review group to examine and report on the audit profession. The review group's term of reference was to examine whether revised structures or arrangements might be necessary to improve public confidence. The Tánaiste expressed her concerns in relation to the CG system in Ireland and the need to establish good practices to be competitive.

“My decision to establish a Review Group on Auditing at this time simply underlines my commitment in this area. In a fast changing and increasingly competitive global environment, Ireland must ensure that we conduct our business and financial affairs in a manner that is above reproach”,

(D.E.T.E, 2001)

Tánaiste Mary Harney provided further evidence that the external auditors are one of the most significant external mechanisms in relation to CG. Hence the reason for the review of the auditing profession, the Tánaiste stated;

“The auditing profession is an extraordinarily important part of our business life. The complexity and diversity of roles and relationships in which auditing firms are increasingly involved, makes this an opportune time to examine how the profession goes about its business and to ensure that it operates according to the highest professional standards”.

(D.E.T.E, 2001)

The review group reported in July 2000, an entire chapter was devoted to CG and the external auditor. The group's main recommendations involved establishing an independent statutory oversight body and that the boards of PLC's, financial institutions and public interest companies should be required by law to establish

audit committees consisting of NED's. Furthermore, directors should be required by law to report annually to shareholders on their firm's compliance with legal obligations (O'Brien, 2000).

2.8.2 The Company Law Enforcement Act 2001

In addition to the review group on auditing recommendations, the government introduced the Company Law Enforcement Act, (2001). This act established the ODCE, which is now responsible for ensuring compliance with the Companies Acts, 1963-2006. The 2001 Act also established the Company Law Review Group (CLRG) as a statutory advisory body charged with advising the minister for Enterprise Trade and Employment on company law reform.

2.8.3 ODCE

The minister for Enterprise, Trade and Employment formally appointed Mr Paul Appleby as Director of Corporate Enforcement with effect from the 28th of November 2001. The ODCE is legally responsible for encouraging compliance with company law. Additionally, the ODCE has the power to investigate and enforce suspected breaches of legislation. The functions of the ODCE are established in section 12(1) of the 2001 Act:

“The Functions of the Director are:

- A. To enforce the companies acts, including by the prosecution of offences by way of summary proceedings,
- B. To encourage compliance with the companies Acts,
- C. To investigate instances of suspected offences under the companies Acts,
- D. At his or her discretion, to refer cases to the Director of public prosecutions where the Director of Corporate Enforcement has reasonable grounds for believing that an indictable offence under the Companies Acts has been committed,

- E. To exercise, insofar as the Director feels it necessary or appropriate, a supervisory role over the activity of liquidators and receivers in the discharge of their functions under the companies Acts,
- F. For the purpose of ensuring the effective application and enforcement of obligations, standards and procedures to which companies and their officers are subject, to perform such other functions in respect of any matters to which the Companies Acts relate as the minister considers appropriate and may by order confer on the Director, and
- G. To perform such other functions for a purpose referred to in paragraph (f) as may be assigned to him or her or under the Companies Acts or any other Act.”

The introduction of the Companies Law Enforcement Act 2001 additionally affected the role of the auditor. Section 74(5), requires auditors to report to the ODCE where they have reasonable grounds for believing that a company, or an officer or agent of the company, has committed an indictable offence under the Companies Acts.

2.8.4 The Companies (Auditing and Accounting) Act 2003

According to Walsh (2003:p5), The Companies (Auditing and Accounting) Act 2003, “is arguably the most important piece of legislation affecting the accounting profession to be included since the foundation of the state”. The 2003 Act established IAASA. The supervisory authority was one of the main recommendations in the review group on auditing report and in turn was a huge blow in relation to the accountancy profession, one of the most respected self regulated professions.

The 2003 Act had many provisions to enhance CG in Ireland. Section 45(3) proposed that directors should sign a Directors’ Compliance Statement (DCS) setting out the companies’ policies and procedures for securing compliance with its relevant obligations (Lambe, 2004). The directors’ obligations relate to the companies Acts, tax law and other relevant law which could materially affect the company’s financial statements. Furthermore, Section 45(205f) proposed a new

obligation on the auditor to review the DCS and to report on whether these statements are fair and reasonable. If the directors fail the auditor's opinion the auditor must report their opinion to the ODCE. Furthermore, Section 45(5) of the 2003 Act states "A person who contravenes this act is guilty of an offence". Therefore if an auditor contravenes this obligation they are guilty of an indictable offence under the legislation.

However, criticisms regarding to the DCS as being too prescriptive and costly to both companies, in relation to complying and external auditor regarding costs of statutory additional work, it was not implemented. A survey conducted by Institute of Chartered Accountants Ireland suggested that "the cost of the proposal to corporate Ireland could be as much as €500 million", (Lambe, 2006:p7), which would have adverse implications for Irish business such as foreign direct investment and companies profits.

Hence, in April 2005 the Minister for Trade and Commerce, Michael Ahearn T.D, referred the CLRG to report on section 45 of the 2003 Act. The CLRG reported to the government in July 2005, they recommended a less prescriptive compliance statement requirement with more 'principles' based annual confirmations being required from directors. Furthermore, the CLRG recommended removing the auditor requirement to conduct a review of, and issue an opinion on the DCS. However, at the time of the research the DCS is still being reviewed.

Additionally, the 2003 Act established that all PLC's should have an audit committee and private companies over a certain size must establish an audit committee or explain why they have not. Section 42 of the Act states the functions of the audit committee and the makeup of the committee. Under section 42(6) the audit committee should consist of not less than two members and directors should meet specific qualifications. However, the 2003 Act does not establish that any member of the audit committee should have financial experience. One of the main recommendations of the Smith report (2003) and incorporated in the Combined Code. Additionally, 34% of Irish PLC's do not name their financial expert in the annual reports (Grant Thornton, 2009).

2.8.5 IAASA

Furthermore, the 2003 Act established IAASA, whose main function is to supervise how the accountancy bodies regulate and monitor their members and to promote adherence to high professional standards within the auditing and accounting profession. IAASA has the power to investigate possible breaches of prescribed accountancy body standards by a member and to conduct enquires into whether a prescribed accountancy body has complied with its investigation and disciplinary procedures. Section 8 of the 2003 Act establishes the objectives of the supervisory authority:

- a) To supervise how the prescribed accountancy bodies regulate and monitor their members,
- b) To promote adherence to high professional standards in the auditing and accounting profession,
- c) To monitor whether the accounts of certain classes of companies and other undertakings comply with the companies Acts, and
- d) To act as a specialist source of advice to the minister on the auditing and accounting matters.

Additionally, section 23 and 24 of the Act sanctions a wide range of powers in respect of the supervisory and oversight of the accounting and auditing profession to IAASA. These sanctions mean that the accountancy bodies in Ireland are under scrutiny to perform their duties. IAASA is Ireland's equivalent to the US supervisory body PCAOB. These supervisory bodies are key CG reforms in relation to increasing the public perceptions of CG, especially in relation to auditing. The establishment of these oversight authority bodies displays the significance that the external auditors have in relation to CG. According to Heneghan and O'Donnell (2007), empirical evidence suggests the above regulatory and legislative changes, particularly the ODCE are contributing positively towards creating compliance culture among directors and auditors, therefore enhancing CG.

2.9 Conclusion

The literature review provides an in depth review of the existing literature and legislation regarding corporate governance in Ireland. The auditor is an external mechanism of the CG framework in relation to accountability of directors to stakeholders (Holm et al, 2007). Fraser and Pong (2009) suggests that every financial scandal in the last century has raised questions regarding the role of the auditor and the auditor's capabilities. They also suggest that there is a relationship consisting of the external auditors and internal mechanisms. The CG reform over the last two decades emphasise the role of the auditor in relation to CG. This can be seen in the changes in relation to the role of the auditors to strength the external audit function, thus enhancing CG.

Brennan and Solomon (2008) suggest that more qualitative research in relation to CG should be conducted. There has been some research with regards to the perceptions of auditors in relation to CG mechanisms, (Goodwin and Seow, 2000), although not in an Irish context. As auditors have a key role as regards CG and 95% of Irish PLC's are audited by one of the Big 4 Audit firms (Lambe, 2004). The researcher shall attempt to gain the perceptions of auditors in regards Irish CG in Irish PLC's.

3 Research Methodology

3.1 Introduction

Research is a way of obtaining answers to a question. This chapter describes the research methodology adopted to achieve the aim and objectives of this thesis. The criticisms of the research process are discussed, as well as the strengths and limitations of the data collection process and the rationale behind adopting these approaches.

3.2 Definition of Research

Research is the activity that we all undertake to learn more about our environment and the impact we have upon it (Ryan et al, 2002). Research is undertaken within a framework of a set of philosophies. It uses procedures, methods and techniques that have been tested for their validity and reliability and is designed to be unbiased and objective (Kumar, 1999).

Additionally, there is no consensus in the literature on how research should be defined, however there seems to be consensus that it:

- 1) Is a process of enquiry and investigation
- 2) Is systematic and methodological
- 3) Increases knowledge

(Collis and Hussey, 2003)

3.3 Research design

Research design is a procedural plan that is adopted by the researcher to answer questions validly, objectively, accurately and economically so as to obtain answers to research questions (Kumar, 1999). The first stage in designing any research is to identify the most appropriate research philosophy to follow in terms of designing and gathering the research. The research philosophy will depend upon the way the researcher thinks about the development of research and this affects the way research is undertaken.

3.4 Research philosophy

The researcher must identify the most suitable research paradigm to pursue in terms of designing and gathering the research. The literature is dominated by two research paradigms, 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).

Positivism, also referred to as the scientific approach, is a structured approach to collecting data, which is analysed and interpreted in a factual statistical manner, while Interpretivism, otherwise known as phenomenology is a flexible approach to data gathering and focuses on the meanings behind the research.

3.4.1 Positivism

Saunders et al (2007) suggests that if the research philosophy reflects the principles of positivism then the research will probably adopt the philosophical stance of natural science. Positivism implies that the researcher is:

“Working with an observable social reality and that the end product of such research can be the deviation of laws or law-like generalisations similar to those produced by physical and natural scientists”

(Remenyi et al, 2003:p33)

Furthermore, positivism is based on the concept that similar studies should be comparable and achieve similar results. Therefore, positivist research develops a hypothesis or theory for analysis through the research process. Gill and Johnson (1997) identified a number of distinguishing characteristics of positivist research; it is deductive, it seeks to explain relationships between variables, it generally uses quantitative data and uses controls to test a hypothesis and it is a highly structured methodology to allow repetition.

3.4.2 Interpretivism

Researchers critical of positivist research argue that “rich insights into this complex world are lost if such complexity is reduced entirely to a series of law like generalisations”, (Saunders et al, 2007:p106). Interpretivism seeks to understand the subjective reality of those being studied, making sense of their motives, actions, and intentions in a way that is meaningful to the research participants (Walliman, 2001). Additionally, Interpretivism assumes that the social world is continually changing and that the researcher is a part of this.

Collis and Hussey (2003) identified the following characteristics of interpretive research it normally produces qualitative data, it uses smaller samples, it is concerned with generating theories, data is rich and subjective, the location is neutral, reliability is low, validity is high and it generalises one setting to another. Furthermore, Remenyi et al (2003) characterises the interpretive researcher as adopting an approach that seeks beyond the facts into the details of the situation to understand the reality working behind them.

Table 3.1 strengths and limitations of positivism and interpretative research

Research Paradigm	Strengths	Limitations
Positivism	Developed to achieve defined theoretical objectives	Impossible to treat people as being separate from their social contexts and they cannot be understood without examining the perceptions they have of their own activities
	Economical both in terms of time and for sampling large numbers	Highly structured research design imposes certain constraints on the results and may ignore more relevant and interesting findings

	Easily analysed and clearly demonstrates existing and emerging patterns and trends	Researchers are not objective, but part of what they observe and capturing complex phenomena in a single measure is misleading
	It gives the researcher control in measurement using validity and reliability testing	
Interpretivism	Takes into account the changing business environment	Data collection and analysis can be time consuming
	Is flexible and results in many different answers which facilitates the understanding of how and why	Perceived as less creditable by 'non researcher'
	Enables the researcher to be alive to changes, which occur during the research process and it is good for understanding social processes	It can be difficult to match conclusions as exact patterns and trends may not emerge
		Observer bias can easily occur

(Adapted from Collis and Hussey, 2003; Easterby-Smith et al, 2002; Saunders et al 2007)

3.5 Inductive/ deductive approaches

The purpose and context of research can differ significantly from pure research (deductive approach) involving the development and testing of a hypothesis with knowledge discovered adding to the existing body of knowledge. To applied research (inductive approach) which is used in the social sciences and collates information and enhances understanding about aspects of the situation, issue, problem or phenomena, (Kumar, 1999; Saunders et al, 2007).

Table 3.2 Difference between deductive and inductive research approaches

Deductive	Inductive
Scientific principles	Gaining an understanding of the meanings humans attach to events
Moving from theory to data	A close understanding of the research context
The need to explain casual relationships between variables	The collection of qualitative data
The collection of quantitative data	A more flexible structure to permit changes of research emphasis as the research progresses
The application of controls to ensure clarity of definition	A realisation that the researcher is part of the research process
A highly structured approach	Less concern with the need to generalise
Researcher independent of what is being researched	
The necessity to select samples of sufficient size in order to generalise conclusions	

3.6 Research philosophy adopted

The choice of the research philosophy depends upon the research aims and objectives outlined in section 1.2. The researcher chose to use the interpretive philosophy as it allows the researcher to understand the patterns behind the facts, rather than just obtaining the facts alone. Additionally, it is the most appropriate method to answer the research question and gain qualitative data.

Interpretivism was used as part of the research by carrying out semi-structured interviews. The interviews involved the researcher interpreting the opinions of the interviewees in the analysis and findings chapter. Additionally, Interpretivism was used because it was flexible, validity is high and can result in many different answers. The qualitative data collected will be rich and subjective and can be generalisable from one setting to another. The major drawback of this philosophy

is that findings are open to observer bias, but the researcher reduced this by tape-recording the interviews.

This research was conducted using the inductive approach which enhances the understanding about the aspects of the situation, issue, or phenomena regarding auditor's perceptions of CG in Ireland. According to Solomon and Brennan, (2008), there is a lot of quantitative research with regards to CG and qualitative research is a neglected area in this research area. Therefore, the inductive approach was adopted because the findings of this research will be added to the existing body of knowledge on the research topic.

3.7 Research focus

Saunders et al (2007), states that there are three main classifications that can be used in the research, i.e. exploratory, explanatory and descriptive.

3.7.1 Exploratory

Exploratory research is a valuable means of finding out “what is happening, to seek new insights, to ask questions and assess phenomena in new light”, Robson (2002:p59). The main advantage of exploratory research is its flexibility and its ability to adapt to changes, therefore allowing the researcher to change the direction of the research as a result of new data or insights. Saunders et al (2007) believe it assists the researcher to clarify their understanding of a problem and that there are three principle ways of conducting exploratory research:

- 1) An examination of the literature.
- 2) Interviewing experts in the subject.
- 3) Conduct focus group interviews.

3.7.2 Explanatory

According to Saunders et al (2007:p134), explanatory research “examine causal relationships between variables”. They further suggest that the emphasis of explanatory research is on examining a situation or problem in order to explain the relationship between variables.

3.7.3 Descriptive

Robson (2002) points out that the purpose of the descriptive study is to portray an accurate profile of persons, events or situations. He further states that it can be used as an extension or a forerunner to exploratory research. A descriptive study assists the researcher in providing a basis for further research and develops an understanding of a situation, Sekaran (2003).

3.8 Research focus adopted

The research focus undertaken can be classified as exploratory and descriptive. The descriptive element of this research involved an analysis of the evolution of CG in Ireland, UK and USA. It also involved evaluating the corporate scandals to determine the significance of the role of the auditor with regards to CG. The researcher used relevant literature in order to establish the research objectives as regards the research question.

However, the exploratory research comprises the opinions and perceptions of auditors' in relation to CG in Ireland. This part of the research was conducted via semi structured interviews with audit partners of each of the big four accountancy firms in Ireland. One of the great advantages of exploratory research is that it is flexible and adaptable to change (Saunders et al, 2007).

3.9 Data collection methods

There are many data collection methods available to the researcher. The methods used for data collection depends mainly on the objectives of the research; the two main sources are primary and secondary research.

3.9.1 Secondary data

Secondary data is data that have been previously compiled. The value of data found will vary depending on the availability, format and quality of the data, which are a function of, validity and reliability, personal bias, availability of data and format (Kumar, 1999). The sources of literature used in this study include books, academic journals, legislation, publications by the Irish government and surveys.

The researcher found much valid and reliable literature as it had been peer reviewed by highly regarded authors. Furthermore, it proved difficult to find literature or data relevant to the Irish context of CG, especially with regards the perceptions of auditors. This literature was mainly quantitative, hence the reason for the researcher to seek qualitative data in regards to auditor's perceptions to CG in Ireland.

3.9.2 Primary data

Primary data is data which is originated by the researcher for the research problem undertaken (Saunders et al, 2007). There are several methods available for collecting primary data. The choice of method depends on the purpose of the study, the resources available and the skills of the researcher (Kumar, 1999). Each method has its own specific advantages and disadvantages and the researcher must select the most appropriate method to answer the research question, while simultaneously considering their constraints.

Primary data can be qualitative or quantitative in nature and can be generated through the use of observations, interviews or questionnaires depending on the objectives of the research question.

3.9.3 Qualitative and Quantitative data

These two approaches need to be considered when choosing the research method. Qualitative research involves the collection of data that is subject to analysis and interpretation, focusing specifically on assessing knowledge and opinions that may not be validated statistically (Domegan and Fleming, 2001).

Quantitative research is research that seeks to quantify the data and typically applies some form of statistical analysis (Malhotra, 1999). It is a form of conclusive research involving large representative samples and is a structured data collection method and is normally associated with surveys and questionnaires.

Furthermore, qualitative research is an unstructured, exploratory research methodology based on small samples that provide insights and understanding of the problem setting, (Malhotra, 1999). Therefore Case studies, observation, surveys and questionnaires were deemed unsuitable methods to gain the primary qualitative data needed to answer the research objectives and complete the research question.

3.9.4 Interviews

Kahn and Cannell, (1957) (cited by Saunders et al 2003:p310) stated “An interview is a purposeful discussion between two or more people”, that allows the interviewer to gather valid and reliable data pertinent to the research question and objectives. The aim of interviews is to get beyond short answers and establish true motivations that shape the auditors’ attitudes or opinions. There are three main types of interviews, unstructured, structured and semi-structured.

3.9.4.1 Unstructured Interviews

Unstructured interviews are often referred to as in-depth interviews and usually conducted on a one to one basis. They aim to get beyond short term answers to establish true motivations that influence a person’s opinion. Sample sizes are small and tend to be time consuming as they are conducted on a one to one basis. Interpretation of findings is also difficult and time consuming requiring extensive coding as it is exploratory research. It allows spontaneous questions, is suitable for sensitive topics and is extremely useful when little is known about the research area. It suffers difficulties in terms of data analysis, interviewer’s bias and comparability as each interviewee can be asked different questions, (Kumar, 1999).

3.9.4.2 Structured Interviews

Structured interviews ask a set of predetermined questions providing comparable uniform information which requires few interviewing skills (Kumar, 1999). They are useful in descriptive research as a means of identifying general patterns in quantitative and statistical analysis containing closed questions similar to a

questionnaire. Furthermore, there is little interaction between the interviewer and the respondent.

3.9.4.3 Semi-structured Interviews

This type of interview is a combination of structured and unstructured interviews. It achieves defined answers to defined questions while leaving time for further development of those answers often containing more open ended questions. It is useful in exploratory studies as it aids understanding of the relationship between variables (Walliman, 2001). Furthermore, sample size is limited due to interviews being one to one causing time and financial constraints with questions requiring careful planning and preparation.

3.10 Voice recording

According to Saunders et al (2007), there is a need to record an interview soon after its occurrence in order to control bias and to produce reliable data for analysis. One method of recording an interview is by using a tape recorder. The advantages and disadvantages are outlined in table 3.3.

Table 3.3 Advantage and disadvantages of tape recording an Interview

Advantages	Disadvantages
Allows the interviewer to concentrate on questioning and listening	May adversely affect the relationship between the interviewee and the interviewer
Allows questions formulated in an interview to be accurately recorded for use in later interviews, if appropriate	May inhibit some interviewee responses and therefore reduce reliability
Can re-listen to the interview	Possible technical problems
Provides an accurate and unbiased record	Disruption when changing tapes
Allows direct quoting	Transcribing tapes is time consuming
It is a permanent record which can be used by others	

(Saunders et al (2007) Research methods for business students (4th edition), P334)

3.11 Research Method adopted

In order to discover auditors' perceptions of CG in Irish PLC's, five semi-structured interviews were carried out with audit partners of the top four audit firms in Ireland based on fee income (see appendix C). The reason why semi-structured interviews were chosen was the researcher's belief that they would give more flexibility and would allow the researcher to ask and omit questions depending on the interviewee's answers and reactions. The researcher felt that unstructured interviews were unsuitable as they are time consuming and difficult to interpret findings as there is no standard on which to base the findings. Additionally, structured interviews were deemed unsuitable as there is no room for flexibility in relation to questions asked and there is little room for interaction between interviewer and interviewee.

The researcher decided to develop and design his own questions as the research area had not been investigated in Ireland before. All the questions were designed on the basis of the literature review findings. Once the interview questions were designed its layout and content was validated by the research supervisor. Additionally, the interview questions were pilot tested prior to conducting interviews by an auditing and CG lecturer, the usage of the pilot test enabled the researcher to test the questions for any errors.

The interviews were conducted face to face and by telephone in June 2009. Each interview was approximately forty minutes in duration. The interviews were tape recorded by kind permission of the interviewees. Tape recording the interviews allowed the interviewer to concentrate on questioning and listening. It allowed questions to be accurately recorded for use in later analysis. Furthermore, it allowed for direct quoting and limited the possibility of interviewer bias as it provided an accurate record of the interviews.

The cover Email and interview guidance questions were sent to all interviewees four days before conducting the interviews. These can be found in Appendix D and Appendix E. The purpose of sending the cover letter and guidance questions before the interviews was to allow the interviewees to establish the purpose of the

research and who the researcher is, while also being better prepared for the interview.

3.12 Research population

The audit firms were chosen in relation to fee income, with 95% of Irish PLC's audited by these big four audit firms (Lambe, 2004). The researcher selected two audit partners from the largest firm and one from the others. Each of these audit partners were chosen due to their experience and knowledge as their perceptions would be essential to answering the research question, this is known as judgmental sampling.

3.13 Analysis Qualitative data

Interpretation of interview findings is less straightforward and requires extensive editing coding and analysis (Domegan and Fleming, 2001). The findings were analysed using colour coding system to identify significant patterns, trends and comparisons between the interviewees.

Furthermore, the researcher was concerned with synthesising different themes and concepts from the research and integrating the research objectives. Additionally, the researcher theorised the data collected by linking them back to the literature. As previously mentioned, the interviews were tape recorded to enable the interviewees to be quoted or paraphrased in the analysis and findings chapters.

3.14 Limitations of Research

However, this research does contain limitations, given the interpretive approach adopted for this research and small target population, the main weakness is that it may be inappropriate to generalise the findings. The reliability of the findings would have increased if the population size had been greater.

Additionally, the thesis was limited in terms of resources which included time, finance and word count. The research needed to be completed within a set time frame and did not receive any funding. Another major limitation with interview findings was the possibility of researcher bias. Due to these constraints, the extent of the research is limited.

3.15 Ethical considerations

Ethics are a code of behaviour appropriate to academics and can be used when conducting research. Being unethical involves; causing harm to individuals, breaching confidentiality, using information improperly and introducing bias, (Kumar, 1999; Saunders et al, 2007). The researcher conducted all primary research with professional integrity and strict confidentiality. Additionally, verbal permission was obtained before recording the interviews and confidentiality was agreed.

3.16 Conclusion

The research was undertaken to investigate auditors' perceptions of CG in Irish PLC's. The research adopted an interpretive philosophy, using an inductive approach. The research was descriptive and exploratory in nature. The research process involved five semi structured interviews with audit partners. This was important from the perspective of the research as the population was relatively small so it was essential all respondents participated in the research to ensure the findings were meaningful. The findings are discussed in chapter four.

4 Analysis and Findings

4.1 Introduction

This chapter is concerned with analysing and interpreting the data collected during the primary research process. This chapter presents a review of the transcripts (appendix F) of the five semi-structured interviews conducted with audit partners from the four largest audit practices in Ireland based on fee income. In the interest of confidentiality, all interviewees have been assigned a letter from A-E.

In reviewing the transcripts the researcher was able to answer the research question, *what are the perceptions of auditors in Ireland in relation to CG in Irish plc's?* This was established by answering the research objectives outlined in section 1.2.

4.2 Key elements of Corporate Governance

Firstly, the researcher established the auditors' perceptions as to the key elements of CG. This was established by asking the interviewees to define CG and to whom they thought CG is protecting. With regards to defining CG, all the interviewees established that there are many definitions of CG as seen in the literature, (Cadbury 1992: Tricker, 1984). The research revealed that it's essential to include the Board of Directors. Partner D emphasised this by stating "it's the tone at the top". Additionally, he believes that "One size does not fit all companies" and that smaller organisations can have very good CG by having the right people in place. The interviewees further suggested it's a framework of systems, checks and balances that's needed to achieve corporate goals and objectives.

Partner A believes it is "a set of procedures surrounding the direction and control of the company", similar to Cadbury (1992). Furthermore, Partner C recommended that CG is needed to achieve "sustainability and corporate accountability, in order to achieve transparency". Additionally, Partner E believes

it is about the guidance for the directors and their fiduciary responsibilities in relation to managing companies affairs, in the best interest of all stakeholders.

Following this, the researcher established the auditors' perceptions of whom CG is protecting, either shareholders or stakeholders. All of the interviewees agreed that CG should be implemented to protect both shareholders and stakeholders. Partner C believes "that CG has a wider role which considers stakeholders and plays an important part in our society". He emphasised the role of stakeholders by suggesting they include a wider group of individuals, including shareholders. Partner B felt that it benefits shareholders in terms of "knowing what is going on" and also stakeholders as they have clarity of how the company is managed and organised. Additionally, Partner A suggests that the fiduciary responsibilities of directors are concerned with the interest of the company neither shareholders nor stakeholders. However, that in recent times CG is essential to protect a broader range of stakeholders. Partner D agrees and used the Anglo Irish bank fiasco to emphasise the need for Irish plc's to adopt a stakeholder approach to CG.

4.3 Key mechanisms in the combined code

The next objective the researcher aimed to explore was the perceptions of auditors' regarding CG mechanisms established in the combined code. The researcher asked the interviewees which of the mechanisms were most and least effective. The interviewees established that it was not that one mechanism was better than the other, rather it's about implementing them correctly and establishing the correct balance between them, which differs from company to company. Additionally, the interviewees suggested that the greatest benefit of these mechanisms was that they formalised company practices. Partner A suggests that to pick one and say it is better than the other is actually missing the broader point. Furthermore, the progress in the combined code still has a long way to go to make those principles live in reality and we need to "walk the walk instead of just talking the talk".

Additionally, Partner C believes the combined code established a framework to help implement best practice CG, it was necessary and that a good board of

directors is key mechanism, “as they are continually responsible for the control of the corporation”. This was agreed by Partner E, who felt that Irish plc’s “struggle” in relation to not having sufficient numbers of independent directors and suggested removing the nine year limit in relation to director’s independence.

Additionally, Partner D feels that a “properly constituted audit committee which works in tandem with the board and the NED’s is a good balance”. He reiterates this by suggesting “if you got the correct chair of an audit committee asking the right questions and challenging management” you would have a good mechanism to enhance governance.

4.4 Regulation in Ireland

As the literature reveals there has been a considerable amount of legislation and regulatory initiatives in Ireland including the Company Law Enforcement Act 2001, which provided for the establishment of the ODCE, and the companies (Auditing and Accounting) Act 2003, which established IAASA in Ireland to try and enhance CG. The researcher aimed to discover the auditors’ opinions with regards to legislation, regulatory bodies and also the proposed DCS.

The general consensus was that there was too much regulation and legislation in Ireland and that the downfall was that there is too little substantial compliance with the legislation especially the combined code. Partner C suggests “we need to get truly serious about CG, there is considerable amount of regulation and legislation, but it needs to be more to the point and better implemented”. Additionally, Partner E felt that in light of the recent Irish corporate failures that “directors need to more on a hook in relation to their actions” and that stricter sanctions and penalties should be established in relation to directors and their behaviour.

4.4.1 O.D.C.E

The literature review suggested that the ODCE has been increasing Irish compliance with the companies Acts and that the auditor’s role has been affected

due to the requirement to report indictable offences (Heneghan and O'Donnell, 2007). The research revealed that auditors' perceptions and opinions varied.

Partner B believes the ODCE has affected the auditors' role, "you feel almost now that you are the watchdogs rather than an independent auditor". Additionally, she stated that it puts the auditor in a better position to encourage companies to comply. Furthermore, Partner E reiterates this and reveals "there's not one auditor that has not reported a matter to the ODCE". Moreover, that the ODCE have tried to roll back and reduce the scope of the audit reporting to them and that there is a good balance at the moment. Partner A and B further suggested that the ODCE has enhanced CG in relation to keeping proper books and records and in relation to directors responsibilities.

"It has put a focus on directors and how they see things and whether they wish to take on the role of the directors or not, because they see that there are all of these things that are clearly more onerous".

(Partner B)

Partner A acknowledged that the ODCE has increased compliance with regards to the level of prosecutions and stick offs, but argued that prosecutions are still relatively low and that there are a lot of directors in Ireland that do not necessarily understand their responsibilities. Partner E agreed and suggested that the significant improvement in compliance is due to technology which is much more actively following non compliance with company filings.

These opinions conflict significantly from that of Partner C and D who suggested the ODCE "has had no impact on the role of the auditor" and that the ODCE is focusing on smaller companies rather than on larger corporations in relation to non compliance.

"I don't really think the ODCE has had an impact on increasing CG in Ireland, the ODCE focuses mainly on a micro level of Irish Non compliance. I don't think it had any material impact on CG, don't get me wrong it had to be done and they did a good job"

(Partner C)

Partner D agreed with this and suggests that companies' micro management has definitely improved following the introduction of the ODCE and "the threat of being struck off being more actively monitored". Additionally, he suggested that it is too early to see the benefits from the establishment of the ODCE.

Regarding the opinions of Partners C and D that the ODCE are focusing on smaller companies rather than larger corporations, the researcher attempted to gain further opinions on this, Partner E states that:

"In my opinion, I think smaller companies tend to be on average non compliant, whereas larger companies tend to have very responsible governance regimes and people responsible for compliance, and my instances where I have been reporting companies tend to be smaller companies because my large clients are all compliant".

(Partner E)

Furthermore, Partner A agreed and that "the investigation of DCC Fyffe's affair is a good example, as it is the biggest case in recent compliance history". He further suggested that the reason for smaller companies being prosecuted was that it can take a considerable amount of time to assemble all the necessary evidence to prosecute a larger corporation due to the ODCE resources. Partner B agreed with this and felt that "the ODCE is almost relying on IAASA to pursue the larger corporations". Partner D implied that the ODCE "is focused on box ticking compliance and indictable offences" and in his opinion these will not necessarily cause a company to fail and the ODCE should change their approach with regards monitoring compliance with the companies' acts.

4.4.2 IAASA

The literature review suggests the companies (Audit and Accounting) Act 2003 has played a significant role in relation to enhancing CG in Ireland. According to Walsh (2003) it is the most important piece of legislation affecting the

accountancy profession. This is in relation to the establishment of IAASA, the researcher aimed to discover the auditors' opinions in regards if IAASA has enhanced Irish CG and how has it affected the role of the auditor. The opinions of the interviewees differed slightly with regards the establishment of IAASA but suggested "it's still early days for IAASA" and that it would benefit CG in the future.

Partner's B and D suggest it has enhanced CG in a small scale. Partner B states "indirectly it has enhanced it to an extent, it is all very new in its role, and so time will tell as to how beneficial it is". She further suggests that it has enhanced the role of the auditors' in relation to actually encouraging companies to be more aware of CG and compliance with the combined code. Additionally, auditors use it to say "IAASA are going to be looking at things, and you could get a letter from IAASA once we have reviewed your accounts". Partner D agrees that it has been helpful to auditors with regards encouraging companies to comply and that IAASA has the ability to have a huge impact in relation to CG. Furthermore, Partner B implies "there are a lot of people keeping an eye on auditors, you almost feel as you are the bad person in the scheme of things".

"Given that IAASA has a role to play in compliance and we now have a much more compliant environment, I think you have to conclude that IAASA has impacted auditors, who are much more conscious of their compliance status".

(Partner A)

Conversely, Partners C and E disagree and suggest that IAASA has not enhanced CG but we will probably see some incremental benefits in the future. Furthermore, Partner C suggests that "IAASA didn't change anything, it just put the mechanism into a separate body" and that there was and still is a mechanism such as the accountancy bodies. Moreover, he suggests that IAASA was established to give the perception of greater regulation in the accountancy profession. In his opinion "that was always the case in relation to accounting, as this is the job of the accountancy bodies, and nothing has really changed". Additionally, he believes that IAASA has had no affect on his role as an auditor

and emphasised the role of the auditors, “an auditor is a watch dog not a blood hound, you can’t chase every rabbit down every little hole and you can’t be expected to”.

Partner E agreed and suggested “the accountancy bodies are doing the same job to a higher standard”. Furthermore, he suggested that Irish PLC’s are aware of IAASA but in relation to CG the combined code is what they aim for. Whereas, Partner D opinions conflict these, “I don’t see a problem with the principle of an Independent body outside the accountancy profession, I think there is a need for both of them, they are carrying out similar but different jobs”.

Furthermore, the researcher then attempted to establish auditors’ opinions as to a better way to enhance the external audit and the accountancy professions other than IAASA. The overall opinion in relation to this was that it would be very difficult to enhance the external audit as it is so regulated. Additionally, Partner B suggested ultimately it is based on “integrity and ethics” and maybe that is where the focus needs to be in relation to auditing. Moreover, Partner C, D and E suggested there is no need to enhance the external audit and suggested that it is important to reduce people’s perceptions of audits (audit expectation gap). Partner D emphasised the structure of the external audit and suggests how it could be enhanced;

“I think it is very difficult to enhance the external audit as it is so well established at the moment, maybe it could be bettered in its structure or layout. I mean this in relation to the way audits are performed”.

(Partner D)

4.4.3 Directors’ Compliance statement (D.C.S)

One of the most significant issues arising from the literature review was the proposal of the DCS from the companies Act 2003. Following, recent Irish corporate failures, the researcher aimed to establish if the DCS should be introduced to enhance CG in Ireland. The majority of the partners opinions were

that Ireland should not adopt the DCS as the costs associated do not match the benefits, Partner E outlined this:

“I think it would be extremely costly, I wouldn’t have seen the particular benefit to it; I think you can immerse business in too much red tape and I think that’s what was going to happen, if the DCS is implemented. You basically are reducing the productivity and the competitiveness of Irish businesses by going down that route and I don’t think the benefits would outweigh the costs.

Partner A implies that there has been a considerable amount of legislation and obligations imposed on directors and “If you really want to apply that literal interpretation of what that involves, we would all give up the will to live”. Additionally, he suggests that Ireland should focus on “really big obligations” rather than “trying to tackle the entire spectrum of obligations only to be defeated by the volume”. Partner B reiterates this “I don’t see it as something that is necessarily going to improve things and enhance CG at this point”. Furthermore, she suggested that it would increase audit fees and this is not something Ireland needs in this current economic climate.

Partner C agrees that the DCS is not the way of enhancing CG “there needs to be more intelligent regulation, but don’t just automatically go and make it more bureaucratic, all that does is penalise the good guys, as these good guys will comply with all the laws and the bad guys no matter how much compliance statements, laws and micro regulations, they find ways around them”.

However partner D thinks Ireland should adopt a DCS but that there needs to be changes to the original DCS. He suggests that Ireland have “missed an opportunity” and believes that it would have been “powerful” to have the directors’ of Anglo sign a compliance statement.

4.4.4 Audit Committees

The literature established a gap between Irish legislation and the combined code in relation to audit committees. Irish legislation does not require the audit committee to have any member to have financial experience, whereas the combined code establishes that at least one member must have recent and relevant financial experience. The researcher aimed to establish the auditors' opinion in relation to this gap in the literature.

It was evident from the research that auditors' believe audit committees should have at least one member with financial experience. Partner B suggests that "it is almost essential" and perhaps they need a chartered accountant, as they have a clear understanding and would be able to challenge the directors and the auditors. These points are reiterated by all the interviewees and Partner D emphasises the role of the audit committee with regards CG:

"I certainly feel the chair needs to be a sophisticated financial person, and I think it could sustain the value of a business especially a PLC, there definitely needs to be someone on the audit committee to understand what is going on".

4.5 Principles versus rules based approach

An issue the researcher aimed to discover as a result of the literature review was the auditors perceptions of the rules based approach established in the US versus the principles based "comply or explain" approach adopted by Irish PLC's under the combined code.

The overall opinions of the interviewees were in favour of the principles based approach to CG and that Ireland should not adopt the rules based approach. The Partners suggest that Sarbanes Oxley was "overkill" and a "knee jerk" reaction to Enron and other corporate scandals. The auditors' opinions were that companies should be encouraged to do the right thing, and not forced. Partner A suggests that the problem with the rules based approach is that "it provides an irresistible temptation to turn off your brain and just tick boxes". He further suggests that the

principles based approach adopted by the combined code is fine if it was properly implemented rather than just ticking boxes. Partner A criticised Irish PLC's CG reporting and implies "virtually not a word changed year on year".

Partner B suggests that while the SOX approach may assist the auditor's in convincing companies to comply with CG, another thing might "break the camel's back". Although she does suggest that once things have settled the SOX approach may not be a bad thing, these opinions are emphasised by partner C:

"I wouldn't advocate the Sarbanes Oxley approach, and in the USA the whole implementation of SOX was over the top and people very soon realised that it was too detailed and the whole emphasis in the USA has been to roll back from this approach.

These opinions lead the researcher to discover whether auditors' felt that Ireland should adopt section 404 of the SOX Act which requires auditors to audit and report on management produced internal control reports.

Partners' B and E were against this approach as they felt Ireland doesn't have big enough businesses to warrant the cost and investment that would be required. Partner B felt most Irish PLC's would be up to speed in terms of internal controls and not sure it would benefit Irish companies due to the size of some companies. Partner A suggested that "the chair of the audit committee should discuss the biggest issues during the year and what the priorities are going forward", and that best practice companies around the world are adopting this type of disclosure. Partner C felt while it would create a massive amount of audit work it would not be useful in an Irish context. Conversely, Partner E felt it may be beneficial to adopt it in a small form and that auditors should report on management assessment rather than report themselves, this is a top down risk based approach.

4.6 Auditor Independence

The literature suggests that auditor independence is an issue in relation to Ireland. Furthermore, the literature discussed the SOX Act approach in relation to

auditors' independence. Thus the researcher attempted to understand the auditors' opinions in relation to auditors Independence in an Irish context and how it could be enhanced.

The overall perception of the research was that auditor independence in Ireland is not an issue and this is due to external and internal procedures established by the audit practice board, auditing standards and accountancy firms. The Partners agreed that it would be difficult to enhance auditor independence and that Irish audit firms have a high standard of ensuring independence is maintained. Partner A discussed all the requirements that auditors' undertake to ensure independence and suggested that auditors' independence "is the highest in business or among other professions". Additionally, that the APB standards establish good guidelines in regards auditor independence and suggest that the SOX approach which requires tax services to be provided by a different firm is not sufficient.

Furthermore, Partner D suggested "the level of knowledge that an auditor gets from actually doing the audit of a business, there is actually a fair bit of value that the auditor can bring, once it's properly monitored right". Moreover, Partner E indicated that auditor rotation is not the way forward; this is due to the audit costs and loss of experience. Furthermore, Partner A suggested that empirical evidence indicates that audit failure is most likely in the first year of an audit, so if you make audit rotation mandatory and reduce the period of rotation, you increase the number of first year audits. He further states that from an auditors' perspective it takes three or four years before you "get under the skin of the client and to the heart of the issues".

4.7 Corporate Governance the way forward

Finally, the researcher aimed to discover what auditors' consider is the way forward for Irish CG. The research attempted to gain the insights of auditors' in relation to establishing a monitoring body in relation to compliance with the combined code (Dewing and Russell, 2004). The interviewees agreed that compliance with the combined code is a problem. Furthermore, the interviewees are in favour of a monitoring body in relation to compliance with the combined

code and that either IAASA or the ODCE could carry out this function. They suggested that monitoring compliance was a great initiative for Irish CG and it will get to a point where Ireland has somebody monitoring compliance. Partner A suggests that there are two great motivators in life “fear and greed” and certainly a monitoring body like this would get peoples undivided attention. Partner B states “really Ireland need to do something in the current circumstances to give stakeholders a level of comfort going forward”.

Partner A suggests that slowly Ireland has been removing elements of self regulation and that compliance is not perfect in Ireland and that we need to be proportionate in relation to introducing regulation. Additionally, Partner D and E suggest that Ireland needs to adopt a sensible approach to non compliance, “you don’t want to make it too rules based”. They indicated if we make it to rules based people will get penalised on technical matters rather than getting to the heart of the problem.

Moreover, Partner B felt “currently in terms of CG there is almost an implied responsibility for the auditors’ to ensure that companies are disclosing and doing the “comply or explain” approach when it comes to the combined code”. This emphasises the need for a monitoring body to be established.

Furthermore, the researcher then aimed to discover has auditing become too regulated and would this affect their decision to pursue a career in auditing. The overall opinion of the interviewees was that auditing has become too regulated and that it would affect their decisions to pursue a career in auditing. They insinuated that auditing is becoming more of a box ticking exercise rather than an investigation. Partner A indicates he left the role as an external auditor mainly because he has seen it become too rules based. Furthermore, Partner D suggests that if you are a banking audit partner in Ireland it is a “tricky place and there is a big expectation of the auditor”. Likewise, he expresses his concerns with regards auditing becoming box ticking:

“I would be nervous about the auditor just starting to tick boxes and fill out forms, that I met the regulation and didn’t actually think about the risks in the business”.

(Partner D)

Partner E agrees and implies that it is not value added and “it doesn’t make the whole career that attractive”. Additionally, he suggests that this is taking away from the auditors skills to be creative and investigate irregularities in the financial statements. Partner B indicates “to pursue a career in auditing in the current environment you have to be a certain type of person to do it and stick by it, there is almost too much regulation at this stage”. She further suggests that there are so many things you need to know or you should have done before you can sign off an audit, “that it does result in a bit of box ticking”, which is not the best way to approach an audit. Partner C agrees and expresses his concerns as an auditor, “it can get a bit scary at times and you could lose your career due to minor issues relating to auditing standards.

Furthermore, the research aimed to discover did auditors’ feel they are unjustifiably at blame when things go wrong. The overall opinion of the interviewees was that auditors receive too much criticism and this was due to the audit expectation gap in Ireland. Additionally, the partners felt that directors need to be more responsible with regards to corporate failures.

“I think there is certainly an expectation gap of what the public and stakeholders expect in general. I think investors and investment managers and professional people understand exactly what they are getting, but there is clearly an expectation gap.

(Partner D)

This point is reiterated by Partner C who suggests that “there is an enormous expectation gap in Irish society”. Partner A and E express opinions on directors responsibilities and that many directors have sat on boards and overseen massive destruction of shareholders value. Additionally, Partner A suggests “the job of a

director nowadays is tougher than it has ever been because of the increase in speed of business, complexity of business and volume of transaction.

“Directors’ are the ones, who must safeguard the assets of the company, it just seems right to me that directors should be accountable for their responsibilities.

(Partner E)

Furthermore, Partner B agrees and suggests that management override is a key issues in auditing, “If management have covered things up there is nothing we can do about it and we can’t be blamed for that as far as I am concerned, we are not there to hound them and go after everything”. She further reiterates that getting the right people on the board of directors is a key element of CG. This point is reiterated by Partner E who states “when directors’ have gone out of their way to conceal something from the auditor, I think that is where we really need to go after the directors”. He further suggested that directors should go to prison if they have lied to the auditors or deliberately misled them. Partner D agrees with this and suggests “there is a board, an audit committee, executive management, if the tone at the top is correct, the auditor is third or fourth line of defence”.

Finally, the research attempted to establish how auditors’ felt CG could be enhanced to protect shareholders and stakeholders value. All the interviewees expressed concern in relation to compliance with the combined code and the qualification and experience of directors’. Partner D suggested that business is moving so fast and there is alot of regulation coming out, so educating directors would benefit NED’s to keep up to speed and enhance the board of directors. Partner B emphasises this and suggests that proper implementation of the mechanisms in the combined code is ultimately where you can improve Irish CG, “if you could get that right you are automatically going to enhance CG and give your shareholders and stakeholders protection and comfort”. Partner C reiterates this and recommends that Ireland needs to establish a proper challenge in relation to compliance and non compliance in Ireland, “we need to get more serious and get away from the public relations exercise of complying with the combined code”.

Partner D agrees with the point concerning the mechanisms and structure of the combined code and suggests “the reality is that Ireland has a very small pool of people who don’t have the knowledge to be directors’ compared to other countries”. He emphasises that it is important to have the right directors’ and indicates “the DCS would be helpful in a broad sense, but not a rules based one”.

Additionally, Partner A suggests that directors need to be aware of risk management and the real risks facing the organisation. He further suggests that CG reporting and disclosure needs to be enhanced and there should be more meaningful reporting with less complex information. In addition, he states “CG should come down to a smaller list of obligations and really demand that they are done properly” and that these should be linked to strategy, key performance indicators and key risk indicators that will “alert you to both the opportunities that you need to pursue and the risks and hazards that you need to avoid”.

4.8 Conclusion

This chapter analysed and discussed the main findings of the semi structured interviews with the five audit partners, which were conducted by the researcher. This enabled the researcher to answer their research question and objectives. The findings are linked to the literature in chapter five, conclusions and recommendations.

5 Conclusions and Recommendations

5.1 Introduction

In this chapter the main findings of the research are summarised and linked to the literature, conclusions are drawn and recommendations and suggestions for further areas of research are derived based on the findings of the study.

A review of the literature developed the research aim of this thesis; *what are the perceptions of auditors in Ireland in relation to CG in Irish PLC's?* In order to answer the research question the objectives established in section 1.2 were derived. The conclusions of this research are broken down under the headings of each research objectives.

5.2 Key Elements of Corporate Governance

The literature reveals that there are many definitions and interpretations involving CG, (OECD, 1999; Rezaee, 2008). Additionally, the literature suggests that there are two main theories, shareholder and stakeholder, (Jensen and Meckling, 1976; Freeman, 1984). The primary research documented the difficulty in establishing an exact description with regards CG. The research revealed that auditors' felt that CG differed from company to company and the board of directors are an integral element in CG. Furthermore, that governance is the procedures necessary to ensure corporate sustainability and accountability while also increasing transparency; these findings support the literature, (Cadbury, 1992; and Tricker, 1984).

Additionally, the primary research confirms that auditors' all agreed that CG should be implemented to protect both shareholders and stakeholders. The research concludes that auditors' feel Ireland should adopt a stakeholder approach to CG. These findings support the work of Cadbury, (2002); Wheeler and Sillanpaa (1997). Additionally, the research revealed that given the effects of recent corporate failures, Ireland needs to adopt a stakeholder approach.

5.3 Mechanisms established in the Combined Code

The literature revealed that over the year's CG has established key reports of codes of best practice. The combined code incorporated these to establish key mechanisms needed to enhance CG. The primary research revealed auditors' believe it was not that one mechanism introduced by the combined code was better than the other, it's about implementing them correctly and establishing the correct balance between them.

The research insinuates that the combined code formalised companies and was required, but has a long way to go to make those principles live in reality. Therefore, one concluded that auditor' believe the combined code has established very good mechanisms but as Partner A indicated we need to "walk the walk instead of just taking the talk".

5.4 Legislation and Regulations in Ireland

As seen in the literature review, Ireland introduced an array of new regulations and initiatives in an attempt to enhance CG following the review group on auditing report. Literature reveals that Ireland introduced the Company Law Enforcement Act, 2001 and The Companies (Auditing and Accounting) Act 2003. These Acts established the ODCE, IAASA and also proposed the implementation of the DCS.

The research revealed the general consensus thought that there was too much regulation and legislation in Ireland and that the downfall was that there is too little "substantial compliance" with the legislation especially the combined code. The auditors' believe that there should be stricter sanctions and penalties established with regard directors' behaviour.

Additionally, the research revealed auditors' have mixed views about the ODCE. The majority of auditors believed that the ODCE has increased governance at a micro level with regards keeping proper books and records and in relation to directors' responsibilities. Furthermore, the literature and research illustrates it has affected the auditor with regards to the duty to report indictable offences.

Conflictingly, two of the audit partners' suggest that the ODCE has not affected the role of the auditor and they are focusing on smaller companies rather than on larger corporations in relation to non compliance. These opinions were contradicted by the other partners who indicated smaller companies tend to be on average non compliant, whereas larger companies tend to have very responsible governance regimes. Additionally, the research insinuated the investigations of DCC Fyffe's are the biggest issue in recent compliance history and the reason for smaller companies being prosecuted is the lack of resources needed to establish evidence for larger corporations.

Furthermore, the literature reveals that the establishment of IAASA is the most important piece of legislation affecting the accountancy profession (Walsh, 2003). The research reveals the majority of auditors believe it has enhanced CG in a small scale as it is too early to see the benefits. Additionally, the research indicates that auditors' believe that IAASA will have a huge impact on CG in the future and that auditors' are using it to encourage companies to comply. Conflictingly, two Partners believe that IAASA has not enhanced CG as it is doing the same job as the accountancy bodies. They believe that there was always regulation in the accountancy profession and nothing has changed.

The literature acknowledged that IAASA has a wide range of powers in respect of the supervisory and oversight of the accounting and auditing professions. Moreover, it suggests that this was needed to enhance the external audit. The research revealed that auditors' believe there is no need to enhance the external audit as it is so regulated at the moment. The findings propose the ways to enhance the external audit are to reduce the audit expectation gap and focus more on auditor's integrity and ethic as these are key elements regarding the auditing profession.

The literature reveals that DCS of the Companies is one of the most debated issues regarding proposed CG legislation in the 2003 Act. The primary research confirms that the auditors' believed that the costs associated with the DCS did not match the benefits. These findings support the work of Lambe (2006) who also indicated it would have serious and adverse implications in Irish business such as

foreign direct investment and companies' profits. However, one Partner recommended redeveloping the DCS and indicated that it would have been "powerful" to have the directors' of Anglo sign a compliance statement.

Finally, the literature reveals a gap between Irish legislation and the combined code in relation to audit committees and financial experience. The findings from the research reveal that auditors' believe it is "essential" to have someone with financial experience on the audit committee and recommends that perhaps a qualified accountant is necessary.

5.5 Combined Code versus Sarbanes Oxley

The literature reveals that there are many different opinions and perceptions regards either the "comply or explain" approach or the rules based approach, (Nagy and Cenker, 2007; Dnes 2005; Petra et al, 2006). The research supports the literature in that auditors' are in favour of the "comply or explain" approach to CG. The research reveals that the SOX approach was "overkill" and this can be seen from the US trying to reduce it. The auditors' believed Ireland should keep the "comply or explain" approach and encourage companies to have better CG, "you want it to be a carrot and not a stick". Furthermore, the auditors' were against Ireland adopting section 404 of the SOX Act as they felt Ireland doesn't have big enough businesses to warrant the cost and investments.

5.6 The Future of Corporate Governance

The literature suggests that Ireland should establish a monitoring body with regards non compliance with the combined code, (Dewing and Russell, 2004). The research findings reveal auditors' are in favour of the monitoring body and this would increase stakeholder's confidence in Irish PLC's. Furthermore, the findings indicated that auditors' believe Ireland must be sensible in its approach with regards not making it too rules based.

Moreover, the literature revealed that the introduction of the SOX Act has caused auditing to become too regulated and causing many of the audit partners to question as to whether or not they would pursue a career in auditing in the current

environment, (Nagy and Cenker, 2007; Reason, 2005). The primary research revealed that is much the same in Ireland. Additionally, the auditors' revealed that auditing in Ireland is becoming a "rules based and box ticking" exercise rather than an investigation of the financial statements.

Additionally, the literature reveals that auditors receive too much criticism as a result of corporate failures and more responsibility should be placed on directors rather than auditors, (Dnes, 2005). The research reveals that auditors' think there is an enormous audit expectation gap in Ireland and this is the main reason for auditors receiving criticism. Furthermore, the findings conclude directors need to be more responsible for their actions and that auditor's are not the main line of defence due to internal mechanisms such as the board of directors and audit committees.

Finally, the primary research reveals that in order to enhance CG Ireland should establish a proper challenge with regards compliance with the combined code. The findings suggest that directors have a key role with regards to CG and suggest that educating directors would enhance CG in Ireland. Moreover, the findings suggest the DCS would be helpful in a broad sense and companies must be aware of risk management and the real risks facing the organisation.

5.7 Recommendations

It is evident from this research the importance of CG and it has a key role in Ireland's current economic environment. The researcher recommends that Ireland needs to enhance its CG in order to increase stakeholder confidence in Irish PLC's.

The researcher recommends that Ireland should introduce stricter sanctions and penalties in relation to director's behaviour. Moreover, the findings reveal that auditors' are not in favour of the DCS, but the researcher recommends that Ireland should redevelop the DCS and that it should come down to a smaller list of obligations that focuses on the key areas of an organisation, Perhaps linking it to risk management, key performance indicators and key risk indicators.

Furthermore, the research reveals auditors are unjustifiably blamed due to the audit expectation gap. The research recommends that Ireland should try and reduce the audit expectation gap to ensure people understand that an audit is an opinion not a guarantee. Furthermore, the researcher recommends with regards audit committees, at least one if not all members of the audit committee should have financial experience. Additionally, the researcher agrees with the findings that the chairman of the audit committee should have financial experience and perhaps be a qualified accountant.

Moreover, the researcher recommends that Ireland should introduce that the directors on boards of Irish PLC's need to be qualified. The researcher recommends that director's education would benefit Ireland and they should be required to undertake continuous professional development in relation to the duties as directors.

Finally, the researcher recommends that Ireland should establish a monitoring body regarding the combined code and that either IAASA or the ODCE should carry out this function. The researcher feels that this will enhance Irish CG and remove the public relations exercise.

5.8 Areas of Further research

As the research was limited by the resources of time and money, further research could be undertaken in relation to auditors' perceptions of CG in an attempt to make this research more generalisable. The researcher believes that a larger investigation of auditors' perceptions may determine ways to enhance CG in the economic climate.

The researcher believes that research should be undertaken to determine the education and qualification of directors' on Irish boards. The research reveals that auditor's believe the board of directors have a key role with regards CG and several directors in Ireland don't understand the responsibilities as a director.

Furthermore, the researcher believes that research could be undertaken to determine the directors' perceptions with regards CG. This would enable Ireland to compare and contrast directors' and auditors' opinions of CG.

Finally, the researcher believes that an impact study should be undertaken to determine the effects of establishing a monitoring body with regards compliance with the combined code. This would be a good indication of what the impact would be if Ireland decided to implement a monitoring body in the future.

The area of CG is a research topic which continually evolves and the researcher believes it is important to undertake qualitative research in this area, thus demanding more detailed and comprehensive analysis in further research.

5.9 Conclusion

While the findings in this research are by no means conclusive, it is hoped that the findings of this research have added valuable insight regarding CG in Irish PLC's. The researcher believes that this research has established key issues that could enhance CG in Irish PLC's, which the research believes are necessary in order to increase stakeholder's confidence in Irish PLC's in this current economic environment.

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7 Appendices A: Summary of the key Corporate Governance Reports

Year	1	Key Points
1992	Cadbury	<p><u>Board of Directors</u></p> <ul style="list-style-type: none"> ▪ The Board should meet regularly, retain full and effective control over the company and monitor the executive management. ▪ There should be a clearly accepted division of responsibilities at the head of the company, which will ensure balance of power and authority, such that no individual has unfettered powers of decision. In companies where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognised senior member. ▪ The Board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions. ▪ The Board should have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the company is firmly in its hands. ▪ There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the company's expense. ▪ All Directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that the Boards procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of company secretary should be a matter for the Board as a whole. <p><u>Non-Executive Directors</u></p> <ul style="list-style-type: none"> ▪ Non-executive Directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. ▪ The majority should be independent of the management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement, apart from their fees and shareholding. Their fees should reflect the time, which they commit to the company. ▪ Non-executive Directors should be appointed for specified terms and reappointment should not be automatic. ▪ Non-executive Directors should be selected through a formal process and both, this process and their

appointment, should be a matter for the board as a whole.

Executive Directors

- Directors' service contracts should not exceed three years without shareholders approval.
- There should be full and clear disclosure of their total emoluments and those of the chairman and the highest-paid UK directors' including pension contributions and stock options. Separate figures should be given for salary and performance related elements and the basis on which performance is measured should be explained.
- Executive Directors' pay should be subject to the recommendations of a Remuneration Committee made up wholly or mainly of executive Directors.

Reporting and Controls

- It is the board's duty to present a balanced and understandable assessment of the company's position.
- The board should ensure that an objective and professional relationship is maintained with the Auditors.
- The board should establish an audit committee of at least 3 Non-Executive Directors with written terms of reference, which deal clearly with its authority and duties.
- The directors should explain their responsibility for preparing the accounts next to a statement by the Auditors about their reporting responsibilities.
- The Directors should report on the effectiveness of the company's system of internal control.
- The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

1995	Greenbury	<ul style="list-style-type: none"> ▪ There should be a remuneration committee comprised of independent non-executive directors who would report fully to the shareholders each year about the company's executive remuneration policy, including full disclosure of the elements in the remuneration of individual directors. ▪ Performance measures linking rewards to company and individual director performance should be adopted in order to more closely align the interest of directors and shareholders.
1998	Hampel	<ul style="list-style-type: none"> ▪ Directors as a board are responsible for relations with stakeholders; but they are accountable to the shareholders. Long term shareholders value can only be pursued successfully by successfully by sustaining

		<p>stakeholder relationships.</p> <ul style="list-style-type: none"> ▪ It is highly desirable that companies and institutional investors engage in dialogue and that institutional investor's make considered use of their shares.
1999	Turnbull	<ul style="list-style-type: none"> ▪ The Board is responsible for ensuring the company has sound internal controls are working as they should ▪ The Board should assess the effectiveness of internal controls and report on them in the annual report. ▪ For risk management purposes, the Board should take into account the existing internal control system in the company and whether any changes are required to ensure adequate and effective management of new risks.
2003	Higgs	<ul style="list-style-type: none"> ▪ The number of meetings of the board and its main committees should be stated in the annual report, together with attendance records of individual directors. ▪ The chief executive directors should not also act as the chairman of the same company. ▪ Non-executive Directors should meet as a group at least once a year without executive directors being present, and the annual report should indicate whether such meetings have occurred. ▪ Chairman and chief executives should consider implementing executive development programmes to train and develop suitable individuals in their companies for future directorial roles. ▪ The Board should inform shareholders as to why they believe a certain individual should be appointed to a non-executive directors and how they might meet the requirements of the role. ▪ There should be a comprehensive induction programme for new non-executive, and resources should be made available for ongoing development of Directors. ▪ The performance of the Board, its committees and its individual members, should be evaluated at least one a year and the annual report should state whether these reviews are being held and how they are conducted. ▪ A full-time executive Director should not hold more than one non-executive directorship or become chairman of a major company. ▪ No one non-executive director should sit on all principal board committees (audit, remuneration and nomination).
2003	Smith	<ul style="list-style-type: none"> ▪ The audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal controls. ▪ The audit committee should satisfy themselves that there is an appropriate system of controls in place but does not need to undertake the monitoring themselves.

8 Appendix B: Summary of the main recommendation of the Combined Code on Corporate Governance

Section	Main Points
A. Directors	<ul style="list-style-type: none"> ▪ Every company should be headed by an effective Board ▪ There should be a clear division between the running of the board and that of the business ▪ The chairman and chief executive should be different people ▪ No individual or group should dominate a board ▪ At least half the board, excluding the chairman, should be non-executive (previously one third)
B. Remuneration	<ul style="list-style-type: none"> ▪ Remuneration should be linked to performance ▪ Non-executives should not receive share options ▪ Executive contracts should have a maximum of 12 months ▪ Remuneration committees should be encouraged to reduce/eliminate payments on termination, especially relating to poor performance ▪ Three independent non-executives should sit on the remuneration committee
C. Accountability and audit	<ul style="list-style-type: none"> ▪ The annual report should discuss internal controls and risk management ▪ Audit committees should include three independent non-executive directors, including one with recent and relevant financial experience
D. Relations to shareholders	<ul style="list-style-type: none"> ▪ Dialogue with shareholders should be the responsibility of the whole board, though most contact will be with chief executive and financial director ▪ Chairman and other directors should understand shareholder concerns and issues ▪ The annual report should contain commentary on the above

9 Appendix C: Top four audit firms based on fee Income

Fee Income (€Million)				
Company	2008	2007	Change (%)	Market share (%)
1. PricewaterhouseCooper	355.0	322.0	10.2	28.1
2. KPMG	307.7	269.3	14.3	24.3
3. Deloitte	165.1	143.6	15.0	13.1
4. Ernst and Young	148.0	138.0	7.2	11.7
5. BDO Simpson Xavier	69.0	72.0	-4.2	5.5
6. Grant Thornton	45.0	40.0	12.5	3.6
7. Mazars	30.0	26.0	15.4	2.4
8. FGS	29.0	21.7	33.6	2.3
9. Horwath Bastow charleton	19.2	16.0	20.0	1.5
10. Russell Brennan Keane	17.4	16.5	5.4	1.4
11. Baker Tilly Ryan Glennon	13.0	12.0	8.3	1.0
12. IFAC Accountants	11.7	10.7	9.3	0.9
13. HLB Nathans	11.4	10.0	14.0	0.9
14. Oliver Freaney & Co	9.1	9.0	1.1	0.7
15. PKF O'Connor, Leddy & Holmes	8.0	8.0	0.0	0.6
16. Brenson Lawlor	6.2	6.1	1.6	0.5
17. OSK	5.9	5.7	3.5	0.5
18. Ormsby and Rhodes	5.5	5.4	1.8	0.4
19. McInerney Saunders	3.8	3.4	11.8	0.3
20. KSI Faulkner Ore	3.5	2.4	45.8	0.3
Total	1263.5	1137.8	11.0	100
Source: FINANCE Accountancy survey 2008				

10 Appendix D: Cover Email to audit Firms

To whom it may concern,

My name is Alan Fletcher, I am currently studying a Master of Arts in Accounting at Letterkenny Institute of Technology. As part of my course I am carrying out a research paper titled; "*A qualitative investigation of corporate governance in Irish PLCs: the perceptions of Auditors in Ireland*".

This research will attempt to provide evidence regarding Auditors discernment of corporate governance in regards shareholders and stakeholders, as well as their perceptions of corporate governance mechanisms in Ireland and how this compares to the Sarbanes Oxley act in the USA.

In order to complete my research paper I need to interview an Audit partner from each of the big 4 accountancy firms in Ireland. I have planned to conduct my interviews commencing the week of the 8th of June 2009.

I would greatly appreciate if your Accountancy firm would be able to help me in completing my research paper.

Kind regards

Alan Fletcher

11 Appendix E: Interview Guide Questions

- In your opinion how would you define corporate governance?
- As corporate governance has evolved rapidly over the last two decades, a number of theories have developed surrounding the parties who most need its protection. In your opinion, is corporate governance most essential to protect the shareholder or the stakeholder needs?
- The Irish stock exchange requires that all Irish listed companies must disclose a statement in their annual reports on their compliance with the combined code on corporate governance, known as the “comply or explain” approach. This differs from the USA (Sarbanes Oxley Act) which adopts a rules based approach to corporate governance. This means that it is compulsory for all listed companies to comply with the SOX Act.
- Do you believe that Ireland should adopt the US rules based, Sarbanes Oxley approach to corporate governance?
- The combined code on corporate governance has introduced many corporate governance mechanisms, such as: *Board of Directors, Non Executive Directors, Audit committees, Remuneration Committees and Nomination Committees.*
- Which of the control mechanisms introduced by the combined code in your opinion is the most effective and why?
- Which of the control mechanisms introduced by the combined code in your opinion is the least effective and why?
- Dewing and Russell (2004) argues that there should be more enforcement in relation to non compliance of the combined code. They suggest that a regulation body similarly to IAASA and the Public Company Accounting Oversight Board (PCAOB) should be established in relation to corporate governance. Dewing states “this would not necessarily mean a return to the old-fashioned command and control regulation, but rather a sustained and focused control exercise by a public agency over activities valued by a community”.
- In relation to monitoring compliance and non compliance with the combined code, what would your perception be in relation to establishing an independent monitoring body with regards to the combined code and should the ODCE or IAASA carry out this function?
- Since the introduction of the Company Law Enforcement Act 2001 particularly the Office Director of Corporate Enforcement (O.D.C.E), in

your opinion has corporate governance compliance increased in Ireland? Also, how has the ODCE affected the role of the auditors?

- The Companies (Audit and Accounting) 2003 Act (also known as the IAASA bill), “is arguably the most important piece of legislation affecting the accountancy profession since the foundation of the state”.
- In your opinion has IAASA enhanced corporate governance in Ireland?
- How do you feel IAASA has affected the role of the accountancy profession, especially the role of the auditors?
- In your opinion do you feel there is a better way to enhance the external audit and the accountancy profession other than IAASA?
- The Companies (Audit and Accounting) Act 2003 also proposed that auditors should review the Directors’ compliance statement but this was not implemented due to criticisms of being too prescriptive and costly. In light of the recent Irish corporate failures, do you feel that the Directors’ compliance statement should be introduced in order to enhance corporate governance in Ireland and why?
- Do you think Ireland should adopt the section 404 SOX Act approach and require auditors to audit and report on management produced internal control reports?
- The SOX Act also addressed issues in relation to Auditors Independence such as: prohibits an auditor from conducting certain consulting services (non audit services) for their audit clients, tightened auditor rotation from 7 to 5 years and establishes criteria so as to reduce conflict of interest between the auditor and the client.
- In your opinion how do you feel that auditor Independence could be enhanced to strengthen the value of the external audit in Ireland?
- In your opinion do you feel that there is too much or too little regulation and legislation in relation to corporate governance in Ireland?
- In the last decade there has been considerable criticism of Auditors in relation to corporate failures. This has led to considerable amount of legislation and regulation being implemented worldwide to enhance Corporate Governance and the role of the Auditor.

- Do you feel that the role of the Auditor has become too regulated and would this affect your decision to pursue a career in Auditing in the current environment?
- Do you feel auditors are unjustifiably blamed when things go wrong and that more responsibility should be placed on directors and is their audit expectation gap?
- How do you feel that corporate governance could be enhanced to protect shareholders and stakeholders value?
- Any other comments you would like to add?

12 Appendix F: Interviewee Transcripts

Interview Partner A

In your opinion how would you define corporate governance?

There are many, many definitions, but the simplest ones are the best. A set of procedures surrounding the direction and control of the company.

As corporate governance has evolved rapidly over the last two decades, a number of theories has developed surrounding the parties who most need its protection. In your opinion, is corporate governance most essential to protect the shareholder or the stakeholder needs?

Well in a sense the fiduciary responsibilities of directors are concerned with holding the interest of the company, not a shareholder or stakeholder or anyone else, it's the legal entity of the company. So a narrow definition is to do that, and of course in recent times people have recognised a broader range of stakeholders, but my own personal attitude is that if we could get a narrow definition right for starters, it would be great and we could move onto other ones later on, but bearing in mind things that have happened in recent times I would be a bit worried that people have not even been able to get that narrow definition looked after properly.

The Irish stock exchange requires that all Irish listed companies must disclose a statement in their annual reports on their compliance with the combined code on corporate governance, known as the “comply or explain” approach. This differs from the USA (Sarbanes Oxley Act) which adopts a rules based approach to corporate governance. This means that it is compulsory for all listed companies to comply with the SOX Act.

Do you believe that Ireland should adopt the US rules based, Sarbanes Oxley approach to corporate governance?

No I don't. The problem with rules based codes is that they provide an almost irresistible temptation to turn off your brain, and just tick boxes. In respect fortune five hundred companies spent the order of 5 million dollars each, complying with SOX and we still have breakdown after breakdown. My personal belief is that a principle based approach is better, for example the Financial Reporting Council recently invited comments on revision to recent legislation. If people actually observe the principles and guidelines and did them properly it would be absolutely fine we wouldn't need any change at all to the combined code, so the real challenge in this is to actually get people to deliver on what their promising by ticking boxes on paper.

The combined code on corporate governance has introduced many corporate governance mechanisms, such as: Board of Directors, Non Executive Directors, Audit committees, Remuneration Committees and Nomination Committees.

Which of the control mechanisms introduced by the combined code in your opinion is the most effective and why?

I wouldn't have the empirical research to conclude that one is better than the other. To pick out one of these and to say it is better than the other is actually missing the broader point that good and all is that the progress we have made in terms of the combined code 03, 06, 08 actually we still have a lot longer to go to make those principles live in reality, in other words to get people "walking the walk instead of just talking the talk". So, this inclines to say that one is better than the other is missing the much bigger point that actually the whole scheme hasn't worked as well as it should have.

Which of the control mechanisms introduced by the combined code in your opinion is the least effective and why?

Need to make sure all the mechanisms are operating effectively together.

Dewing and Russell (2004) argues that there should be more enforcement in relation to non compliance of the combined code. They suggest that a regulation body similarly to IAASA and the Public Company Accounting Oversight Board (PCAOB) should be established in relation to corporate governance. Dewing states "this would not necessarily mean a return to the old-fashioned command and control regulation, but rather a sustained and focused control exercise by a public agency over activities valued by a community".

In relation to monitoring compliance and non compliance with the combined code, what would your perception be in relation to establishing an independent monitoring body with regards to the combined code and should the ODCE or IAASA carry out this function?

The cynics suggest that there are only two great motivators in life, "fear and greed". Certainly when it comes to there being a regulator body with teeth, that will get peoples undivided attention. Slowly but surely over the years, we have been removing elements of self regulation and getting into more and more regulation. My concern is that there would be a mad rush towards excessive regulation and a knee jerk reaction and an immediate reaction to the failures recently. However, in answer to the assertion recently that someone made to me, that auditors are not regulated enough I pointed out that my firm is subject to inspection by the joint monitoring unit and the institute of chartered accountants, to quality reviews by CARB (chartered accountants regulatory body) to inspection by the PCAOB in respect SOX registered clients and subject to reviews by international quality teams who come in from our firm. These reviewers will crawl all

over you and beat you up if you're not compliant with all the firms' standards. So, I'm not saying that the compliance is necessarily working perfectly at the moment I think there probably could be more, but we need to be careful to keep it proportionate, so broadly speaking I support more regulation, but I think it has to be proportionate.

Since the introduction of the Company Law Enforcement Act 2001 particularly the Office Director of Corporate Enforcement (O.D.C.E), in your opinion has corporate governance compliance increased in Ireland? Also, how has the ODCE affected the role of the auditors?

Yes, I think it probably has, but I think it has a long way to go yet.

The auditors are being called upon more and more to report under either regulation such as the ODCE, by reference to criminal justice bills, or finance bills or whatever else, like section 59 reporting or the anti money laundering and things. Again, I suppose while we have a very significant increase in compliance, I think that we need to make sure we have a balance with a focus on directors in terms of compliance, because we have seen that when there is a breakdown of some sort people start looking to see who can pick up the tab and they look at people with the deepest pockets. The auditors liability and the extent of liability and so on, but all too often there isn't a sufficient focus on directors and if you look at what the ODCE has done recently, I think it's a move in the right direction, I think there is probably a lot more to be done. If you look at the annual report of the ODCE or the annual report of the companies registration office and look at the level of prosecutions and strike offs. While they are much higher than before when there was virtually nothing happening on this front, there still relatively low, and the difficulty by implication of all of this is that there are a lot of directors that do not necessarily understand all of their responsibilities. If you don't understand what your responsibility is, then how can you be expected to comply? Now, the law says that ignorance is no defence you are still expected to comply but it's sort of just the human nature part of this is concerned, if I turn to a director and say do you not realise that you haven't filled your returns within the statutory limit or failed to maintain registers or you haven't done this that or the other. If they don't realise their duties in the first place that's a bad place to be starting from.

Do you think that the ODCE are focusing on smaller cases of non compliance rather than large corporate cases?

No, the investigations of DCC Fyffe's affair which has to be one of the biggest issues in recent compliance history, and you saw on the headlines of yesterday with national Irish bank. The difficulty with some of this stuff is that it can take some considerable time to assemble all of the necessary evidence, and the resources available whether it's the ODCE or IAASA or any other body. The amount of resources available are always going to be an issue, because if you're trying to catch bad guys, any resource you have need to be as good as, if not better than the resources that of course the bad

guys have. What I mean by that is you need the very best brains in accounting, law, auditing and all of the other disciplines to go after the suspected or actual people who are breaching the various rules and that's not always easy with the restricted resources available to some of these bodies.

The Companies (Audit and Accounting) 2003 Act (also known as the IAASA bill), "is arguably the most important piece of legislation affecting the accountancy profession since the foundation of the state".

How do you feel IAASA has affected the role of the accountancy profession, especially the role of the auditors?

Well, the expectation gap, this phrase has been around for a very, very long time, and I think the audit profession has battled to get a better understand of what an audit can do and what audit should not be expected to do. We have had a huge over haul of auditing standards over the years and the international statements of auditing now place much, much more rigorous demands on auditors than before, for example in relation to reporting on fraud, etc. Given that IAASA has a role to play in compliance and we now have a much more demanding compliance environment, well then I think you have to conclude that IAASA has impacted auditors and auditors are much more conscious of their compliance status.

In your opinion do you feel there is a better way to enhance the external audit and the accountancy profession other than IAASA?

Well, it's a very broad question.

Do you think better independence, or reducing audit rotation, etc?

Some of these issues are very complex, e.g. the rotation situation it's very well documented from empirical studies and audit failures that one of the periods which is most vulnerable to audit failure is the first year after the appointment of the new auditors. That's the year where the audit partner and audit team are rapidly building their knowledge, but don't know the client very well. If you set about making rotation mandatory or reducing the period of rotation you are increasing the churn and the number of first year audits, and the audit partner and audit team don't necessarily know it as well. Of course the other side of the argument people would say look, if you are in there for 10 years or 15 years, 20, you end up being captured. You know all the senior people too well; you won't be able to make the hard decisions and so on, so as in so many of these things, I think the balance lies between the two. But, the parts that a lot of people forget about these things is that there are a human element to auditing as there is in everything else, and we would do well not to ignore that and just a terms of that familiarisation and how people get on top of things, and I know from talking to auditors who say to me it was only in the second or third year that I really felt I got under the skin of this particular audit and really

getting to the heart of all of the issues. I think that we need to be careful not to be too perceptive about introducing new rules producing in that front.

It's about getting the correct balance.

The Companies (Audit and Accounting) Act 2003 proposed that auditors should review the Directors' compliance statement but this was not implemented due to criticisms of being too prescriptive and costly. In light of the recent Irish corporate failures, do you feel that the Directors' compliance statement should be introduced in order to enhance corporate governance in Ireland and why?

I will answer that with an observation in a slightly different area, which is the area of risk management. If you look at all of the statutes that have been passed by our DAIL since independence you will see that there is something in the excess of 3300- 3400 Acts, since 1922. As I sign up to be a director of a company and I realise that there is this giant body of legislation out there which refers to directors all over the place, and that legislation is imposing a series of obligations upon me. If you stop and think about getting to a position where you can put hand on heart and say I know all of my obligations under all of the legislation, and regulations and statutory instruments and various other things, I know all of that I have thought about how they impact my business, I have made sure I have processes in place to address all of them, I have made sure I have mechanisms to ensure that those processes and controls that I designed are working properly, and yes I can sign off.

If you really want to apply all the rigour that a literal interpretation of what that would mean, we would all just give up the will to live. We wouldn't get to it all; in the risk management area what I would suggest is that what we need to do is make sure that on a reasonable basis we have tackled all of the most important stuff. If there is some fine element of compliance that I haven't done well if it amounts to something serious enough it's going to pop up sooner or later, but I would prefer to know that whether 10 or 50 or 20 really big obligations that I am in absolutely, really good shape with those, as opposed to trying to tackle the entire spectrum of obligations and simply be defeated by the volume.

The other thing I would refer you to here would be to look at the CLRG, in their report on consolidating companies legislation they talk about establishing a list of fiduciary responsibilities for directors in the new consolidation act, and they also talk about whether it would make sense to get directors to acknowledge their responsibilities over these different fiduciary responsibilities, and they say do you know something because we have not addressed the question of directors qualifications, so anyone can become a director, all you have to be is over 18 and off you go, because we haven't dealt with all of that it would create a statutory fiction to require people, as the legislator would know that I can impose this obligation, but I know that the thousands and thousands of directors out there that probably a very substantial number of them wouldn't actually understand what the

fiduciary responsibilities are at all. So why get them to sign of piece of paper when you know with all certainty that a good proportion of directors would be signing a lie. Now that raises a much bigger issues of directors competence and training, induction and all of that sort of carry on, so I think what we have to do is use the biggest bucket of pragmatism here, I think the move in the consolidated companies bill is a good move, I think that there is a crying need for raising the bare minimum (di minimums) level of understanding and skills of every single director and that's a very big challenge that someone needs to figure out.

There are a lot of education courses coming up for directors:

There are indeed I completed the diploma of corporate governance myself in Smurfit, there is the chartered director qualifications from the institute of directors, the MSc in corporate leadership in DCU, Institute of Chartered Accountants diploma, there are lots of stuff going on.

Do you think Ireland should adopt the section 404 SOX Act approach and require auditors to audit and report on management produced internal control reports?

As I said earlier, I don't believe in the very prescriptive detail ruled based approach of the US, I prefer to see a principles based approach, but then I would hope people seek to the fire and say you know given that we have the principles approach you most show form that have actually thought about this and have something realistic to put into you annual report, or whether its web report or whatever else. If you look at some of the corporate governance reporting year on year you will discover there is virtually not a word changed year on year, and that instead of there being meaningful commentary, on strategy, controls, risks, and all the corporate governance issues all you get is the form. You get people saying that I must say this, this and this because we are supposed to comply or explain with the combined code and there is a big difference between the best companies who have a meaningful disclosure, for example; instead of just trotting out the standards in terms of reference for the audit committee and the number of meetings they have had, get the chair of the audit committee to talk about what were the biggest issues during the year, what they been dealt with, and what are the priorities going forward.

Now that goes against the grain and some people think that that's washing your dirty linen in public, but increasingly the best practice companies are adopting this sort of disclosure we have been tracking this carefully for the last couple of years and we produced a best practices set of disclosures, in places all around the world and say look guys here are things you should actually consider and try to encourage them to adopt it.

The SOX Act also addressed issues in relation to Auditors Independence such as: prohibits an auditor from conducting certain consulting services (non audit services) for their audit clients,

tightened auditor rotation from 7 to 5 years and establishes criteria so as to reduce conflict of interest between the auditor and the client.

In your opinion how do you feel that auditor Independence could be enhanced to strengthen the value of the external audit in Ireland?

Well, this comes at a time when I have just recently completed the risk of independence confirmation for a company that I am required to complete. I can safely say that the confirmations that I am required to complete as a partner in my firm, I can safely tell you that the exercise to sign off on all of the requirements took about 5 hours, the reason it took me 5 hours was because if you actually go through the list there is an extraordinarily exhaustive range of different requirements that I'm required to sign off on.

Partner A discussed his firm's checklist in relation to auditor's independence.

The checklist covers things like our global and local policies, the code of conduct, personnel portfolio of shares, knowledge of joint business relationships, reporting obligations under section 194 of the companies Act 1990, reporting obligations under section 59 of the criminal justice theft and fraud offences Act 2001, etc, etc, etc. That's a total of 17 pages of very, very detail stuff, and littered throughout it are document links.

I think we have a very demanding list of requirements for auditors at the moment and so for example in organising my financial affairs I am not allowed to hold a single share in any company that is audited by my firm no matter where in the world. So if I had a 100 Australian dollars worth of shares in an Australian listed company that my great aunt gave me in part of her will ,and my firm is the auditor and it doesn't matter how material the 100 dollars is to a 1 billion dollar corporation, I'm technically in breach of my independence. Now you point to me anywhere else in business or among other professions that the standard is set that high and come back to me then and I will come back to you then and I can answer that question about further announcement.

So it's not really an issue?

Well, I can't say it's not an issue, I'm sure someone would trot out examples of breaches, but the standard is high. The other issue on the auditors independence may be things like if your an auditor you can't deliver other services because this is a concern as in the case Enron, that the audit firm was getting more money from its consulting revenue that audit fees and therefore it was compromised because if a row came up in the audit and the auditors were getting stroppy saying you can't do this that and the other management can turn around and say well you know that contract you were hoping to get next month, I will be thinking about that a little bit more carefully and of course you can understand certain circumstances where that may be the case. But we already have a rules for all of that and we have disclosure and there are places when some of these

rules are counterproductive, e.g. in certain countries there are restrictions imposed that auditors cannot provide tax services, now who is going to know the business affairs of a company better than the auditor. Yet what you want to do is prohibit him from providing tax services. Fine if people are saying look it could be the very aggressive tax avoidance or whatever else, that's a different kettle of fish that comes back to what he is trying to do here and so we have to assume a certain amount bona fida in all this.

In your opinion do you feel that there is too much or too little regulation and legislation in relation to corporate governance in Ireland?

I think there is too little substantial compliance in relation to the combined code, it's the way people apply it, partly because of the new code of practice for the governance of state bodies was issued at the weekend. This is an update from the Department of the Taoiseach's site, or finance, it's an update of the 2001 code and that is very welcome, but the question you have to ask is (and I do lots of evaluations on companies, audit committees, and boards) and the temptation is for people to justify how good they are rather than to challenge themselves on how much better they could be and it's that change in mindset that we really need to go after.

In the last decade there has been considerable criticism of Auditors in relation to corporate failures. This has led to considerable amount of legislation and regulation being implemented worldwide to enhance Corporate Governance and the role of the Auditor.

Do you feel that the role of the Auditor has become too regulated and would this affect your decision to pursue a career in Auditing in the current environment?

Well, you're probably asking the wrong guy because I'm 32 years in the firm, 22 years a partner, I left the role of external audit a few years ago, mainly because I seen it become incredibly rules based, it would affect my decision. If you asked me would it affect my advice to my children to consider a career in auditing, yes it would.

Do you feel auditors are unjustifiably blamed when things go wrong and that more responsibility should be placed on directors and is their an audit expectation gap?

There is an audit expectation gap, most definitely.

I think disproportionately blamed which is slightly different, they may be partly to blame for an audit failure because of their failure to detect a material misstatement, but I have seen in many cases that an undue focus only or mainly on the auditor and insufficient focus on where directors were, as directors at the end of the day (go back to section 147 of the 1963 Act) they are the ones who must safeguard the assets of the company, if you take some of the very large corporate failures in recent times, and

bearing in mind that the directors primary duty is the interest of the company many of them have sat in a director role and overseen the massive, massive destruction of shareholder value. In some cases over 95% of the companies value has simply disappeared, there share prices collapsed from £20 down to 50p or whatever, it just seem right to me that these directors are really being accountable for their responsibilities as directors.

Do you think we need better qualified and educated directors?

Yes, definitely.

How do you feel that corporate governance could be enhanced to protect shareholders and stakeholders value?

Well, I think one of the things that need to be done and radically overhauled is for directors to look at risk management and get better value from it so that there concentrating on the real risk facing the organisation. Secondly there has to be vastly better corporate governance reporting and disclosure, and thirdly there should be more frequent reporting of better more meaningful, less complex information. It's interesting the Financial Reporting Council has just brought out a report about simplifying corporate reporting as it has becoming too difficult, turgid and inaccessible to the average reader. I think there is simple stuff; you don't need complex things to improve things.

Instead of over compliance, perhaps better compliance?

Absolutely, come down to a smaller list of obligations and really demand that they are done properly, one of the biggest issues and this will be a subject of a taught leadership paper that we are producing shortly, is that far too many organisations there is an insufficiently strong and obvious link between the strategy in the one hand and key performance indicators and a small handful (if I said to you I was a retail bank, or a grocer retailer, or pharmacy chain, pharmaceutical company), whatever the sector can you identify for me 6,8,10 key performance indicators that really put your finger on the pulse of the business against the backdrop of your strategic objectives, and secondly corresponding to those key performance indicators do you have a simple but powerful set of key risk indicators that will alert you both to the opportunities that you need to be pursuing and to the risks and hazards that you need to be avoiding. There are far too many organisations that simply do not have those alignments in place, between strategy and Key Performance Indicators and Key Risk Indicators, and if they had these in place they would be far better off.

Instead what we have is directors who didn't know a collateralised debt obligation from a hole in the ground and they were too embarrassed to put up their hand and say they didn't understand what this esoteric, rived structure was in the banks.

No one is saying this is an easy job; the job of a director nowadays is tougher than it has ever been because of the vast increase in speed of business, complexity of business, the volume of transactions and in the interconnectedness in the supply chain. These would be four factors which have just made the job are vastly more demanding and difficult, but if you're going into the kitchen you better be ready to take the heat and the judiciary has been very clear on that as well in cases that have been tried where they have looked at the obligations of directors and said I'm sorry you have not discharged your responsibilities and therefore you're going to be prosecuted.

On the other hand, where you have (I had an incident of this just recently in a public sector company) a new board of directors put in place and a new audit committee set up and the audit committee did not have a single financial expert on it, (so your familiar with the obligation there). There wasn't a single person who was a financial expert, now the financial expert doesn't have to be a chartered accountant auditor in a big 4 firm, it could be a business person, or someone who knows there way around business and around financial statements, but no one had these expertise, and I said to the chief executive of this company are you certifiably mad how can you possibly oversee a situation where the board specifically delegates responsibility to the audit committee, to examine a financial statement on its behalf and approve them on its behalf subject to ratification, talk to internal and external auditors and they don't know anyone who knows FRS 17 from a hole in the ground, It's crazy.

I have found that from my literature review that Irish legislation does not require the audit committee to have any member have financial experience where as the combined code establishes that at least one member must have financial experience.

Common sense would tell you that you need to have someone that knows his stuff before they pick up a set of financial statements, so as the old saying goes the problem with common sense is that it's not that common!

Do you think the audit committee should have financial experience in some manner?

Yes I completely agree, it is almost essential.

Any other comments you would like to add?

No

Interview Partner B

In your opinion how would you define corporate governance?

Well, I suppose it's the case of insuring that companies do the correct thing, for the benefit of the company and shareholder.

As corporate governance has evolved rapidly over the last two decades, a number of theories has developed surrounding the parties who most need its protection. In your opinion, is corporate governance most essential to protect the shareholder or the stakeholder needs?

Well, I think it is a bit of both, the idea behind the corporate governance in my mind is you protect the integrity of the companies information and financial results as they try to contribute to ensure transparency around hard things like that. Obviously it has a benefit for both the shareholders and stakeholders in terms of knowing what is going on and also in terms of the stakeholders as they also have clarity around how a company is managed and organised, so I do think there is benefit for both actually. I wouldn't say that there is necessarily one more than the other.

The Irish stock exchange requires that all Irish listed companies must disclose a statement in their annual reports on their compliance with the combined code on corporate governance, known as the "comply or explain" approach. This differs from the USA (Sarbanes Oxley Act) which adopts a rules based approach to corporate governance. This means that it is compulsory for all listed companies to comply with the SOX Act.

Do you believe that Ireland should adopt the US rules based, Sarbanes Oxley approach to corporate governance?

There is certainly a difference between the two, Sarbanes gives you the benefit that people have to comply with it so there is probably less if I could say less requirements for the auditors to try and encourage companies to do that. whereas under corporate governance (the combined code) as it is not enforced at a particular point in time, the auditor would have more difficulty sometimes trying to convince the company as to why they should comply with certain things under corporate governance. So, I would say in some respect it would be easier if the combined code was enforced like Sarbanes Oxley. Whether Ireland should adopt it? It does mean more work for companies and in the current environment I don't think that they need any more pressure, their under enough as it is to be transparent and disclose everything, I think another thing maybe as they say, "might break the camel's back", but in the future it may not be a bad thing once things have settled, and if there is requirement you will have to do it.

The combined code on corporate governance has introduced many corporate governance mechanisms, such as: *Board of Directors, Non Executive Directors, Audit committees, Remuneration Committees and Nomination Committees.*

Which of the control mechanisms introduced by the combined code in your opinion is the most effective and why?

It is not that one is more effective and another one is less effective in terms of those 5, the big impact of these things is how well they are implemented by management within an organisation, so it is going to be different in different organisations and you can't say that one is better than the other as it varies across the companies. In terms of what is best, in my mind they should all be operating equally effectively and should be implemented properly, so they should all have terms of reference that they work by, that are best practice and they should be complying with all the requirements in terms of who they appoint to the board of directors, how they go about doing it, how they appoint their non executive directors, etc, etc, etc.

They should all be equally well implemented, so they should all be equally as effective, as I say I can't give you and say from what I have seen, this is the least or most, because it differs from company to company.

Dewing and Russell (2004) argues that there should be more enforcement in relation to non compliance of the combined code. They suggest that a regulation body similarly to IAASA and the Public Company Accounting Oversight Board (PCAOB) should be established in relation to corporate governance. Dewing states "this would not necessarily mean a return to the old-fashioned command and control regulation, but rather a sustained and focused control exercise by a public agency over activities valued by a community".

In relation to monitoring compliance and non compliance with the combined code, what would your perception be in relation to establishing an independent monitoring body with regards to the combined code and should the ODCE or IAASA carry out this function?

My personal view is that there are so many things being put in place in terms of monitoring, so you do already have the ODCE and IAASA, and the IFRS, and you have the financial reporting council in the UK, that looks at those half of things. Right now, I don't think that necessarily it is the right thing to do currently in terms of corporate governance there is almost an implied responsibility for the auditors to ensure that companies are disclosing and doing the "comply or explain" approach when it comes to the combined code. So, I'm not sure that it is the right thing to do now.

There is certainly an element of non compliance in Ireland, I suppose that I'm trying to be pragmatic in the current circumstances and there is certainly going to be a push at the moment, certainly from a my firms

perspective we are looking more closely at the non compliance piece and you really need to be doing something in the current circumstances to give people (stakeholders) a level of comfort around the organisation going forward, and they (The Company) benefit through it as well. So you can use your role as an auditor to encourage it, I do believe it will get to a point where you have somebody monitoring compliance.

Since the introduction of the Company Law Enforcement Act 2001 particularly the Office Director of Corporate Enforcement (O.D.C.E), in your opinion has corporate governance compliance increased in Ireland? Also, how has the ODCE affected the role of the auditors?

In some respect the ODCE has affected our role as auditors, you feel almost now that you are the watchdog rather than an independent auditor going into check things and review certain things, now we are in a position and I certainly found that companies are saying why are you worrying about that, it's not your problem, your only the auditor, it's the responsibility of the company to ensure those types of things. So, in some ways it has affected us in that way and companies are not too happy about it, and in other ways it probably has a little bit of a benefit in a sense that it is ensuring that we check certain things more closely than we might have in the past and the one particular instance would be you know the question around fraud and whether fraud has taken place, and what the risk of fraud is within an organisation. Certainly from an Irish perspective it has encouraged that. The other one that I see has encouraged us to take note of more is also whether proper books and records are being kept. Indirectly it has a bit of a benefit just in focusing the mind, but it does create a bit of a burden on you which companies don't necessarily appreciate.

I certainly think when you look at directors and their responsibility, it has put a focus on directors and how they see things and whether they wish to take on the role of the director or not, because they see that there are all these things that now are clearly more onerous.

Do you think the ODCE are focusing on smaller companies rather than larger corporations?

I would agree. My opinion would be that they are almost working on a rules based type set up, so they look at it and say here is a rule and there does not appear to be a level of judgement brought into say how important is that one versus other things. I think that the focus may not be particularly correct at this particular point in time but you also have to give them an opportunity to develop those skills, and yes it's always easier to start with the smaller ones to get yourself up to speed and comfortable with things, before you go for the bigger fish. I get the impression that ODCE is almost relying on IAASA to go for the bigger fish, in some ways. While they have different focuses on certain things, I think they are almost in a sense thinking well IAASA will look after the big companies but are not focusing on the things the ODCE would.

The Companies (Audit and Accounting) 2003 Act (also known as the IAASA bill), “is arguably the most important piece of legislation affecting the accountancy profession since the foundation of the state”.

In your opinion has IAASA enhanced corporate governance in Ireland?

We would certainly be using it as a tool when we are talking to PLCs to say “Look IAASA is going to be looking at things, and you could get a letter from IAASA once they have reviewed your accounts”. It is helping us actually to encourage companies to be more aware of corporate governance and compliances with the combined code. So I suppose, indirectly it has enhanced it to an extent. Time will tell, it is all very new in its role, so time will tell as to how beneficial that enhancement is.

How do you feel IAASA has affected the role of the accountancy profession, especially the role of the auditors?

In relation to accountants and auditors there is a lot of people keeping an eye on us, you almost feel like you are the bad person in the scheme of things sometimes. I certainly think that checks and balances, and things that are in place will have a positive effect on the accountancy profession overall to make sure that we all do toe the line, and keep within things. As I mentioned in a previous question that yes IAASA has enhanced corporate governance especially the role of the auditor. It has helped us the auditors, it has given us something we can go to companies with and say this is why you need to do something.

Do you think IAASA is a second check in relation to the accountancy bodies?

I suppose it’s difficult to say at this stage, my initial view is that I thought that IAASA was an extra burden initially, I also think time will tell, but overall if you look at it and try to look at the bigger picture in what your trying to achieve around monitoring the accountancy profession and auditors, it certainly helps to know that there are people out there who are guiding the profession in terms of what they should be doing. But at the end of the day all of these bodies can only succeed if they actually implement what they say they are going to implement and there is a benefit to that implementation.

In your opinion do you feel there is a better way to enhance the external audit and the accountancy profession other than IAASA?

That is a difficult one to answer I’m not sure I have an answer for if there is a better way to enhance the external audit. At the end of the day, auditing is governed by ethics and all sorts of things that are out there, it’s up to the firms to monitor themselves more than having necessarily another external something out there, because we already have to report to various bodies. We have various reviews whether they are internal or external, I am not

sure there is a better way to enhance it. Ultimately, it is based on integrity and ethics, and provided people are complying with that, you are going to be ok. I suppose that is where the focus needs to be on integrity and ethics.

The Companies (Audit and Accounting) Act 2003 also proposed that auditors should review the Directors' compliance statement but this was not implemented due to criticisms of being too prescriptive and costly. In light of the recent Irish corporate failures, do you feel that the Directors' compliance statement should be introduced in order to enhance corporate governance in Ireland and why?

My personal opinion is when you look at the Directors' compliance statement and various forms it exists in and various other places, to be honest I don't see that as something that is necessarily going to improve things and enhance corporate governance at this point. Again, it's getting into the mode of we are just writing on a piece of paper what we are supposed to write and the actual underlying system may not actually exist, it may not be fully implemented correctly to support this statement, and until you can do that it's not going to be of much benefit.

Do you think the Directors' compliance statement will effect foreign investment in Ireland?

Well it does have an impact as you do certain things in relation to an audit and certain statement procedures around some of those things that they may comment on it wouldn't be sufficient for an auditor to sign off on that. They would have to up the level that they do, to sign a specific statement in relation to that. So it would create a difficulty in terms of the level of work and having to get an increase in audit fees for that, which we all know at the moment companies do not wish to discuss.

Do you think Ireland should adopt the section 404 SOX Act approach and require auditors to audit and report on management produced internal control reports?

This is also a difficult one, as I used to do a lot of work around SOX and would see a lot of global corporations and how they went about implementing. Once again, I suppose you can implement something like that it depends to what level you push it down to whether it will be successful or not. But should we adopt the SOX 404 approach? I am not sure it is applicable to Irish companies in the sense that you would have to think of it in terms of how big are those Irish corporations, so yes the ones that are big enough do fall under SOX anyway as they are listed on the New York stock exchange and so they get core side. The ones that are local PLC I think would have to be very much on a size criteria as to whether it is applicable or not. There certainly are many benefits to introducing something like SOX 404 in relation to controls. You generally find that most of the PLC's here would be fairly up to speed in terms of internal controls because of their size, so while they may not go the full SOX approach they would be well on their way there anyway, so the overall

view is from my side is I'm not sure that there is a benefit at this point to adopting something like that for Irish companies.

The SOX Act also addressed issues in relation to Auditors Independence such as: prohibits an auditor from conducting certain consulting services (non audit services) for their audit clients, tightened auditor rotation from 7 to 5 years and establishes criteria so as to reduce conflict of interest between the auditor and the client.

In your opinion how do you feel that auditor Independence could be enhanced to strengthen the value of the external audit in Ireland?

I certainly don't think there is any need to enhance it, what you will find now is that most, well certainly the ones that I would deal with and I would deal with a lot of companies that have a global set up, I find that even without SOX and even if they are not compiled to comply with SOX, independence is a focus and the forefront of any service that you offer. So we would have clear guidelines that we follow which are very similar to SOX anyway, so I don't think that there is anything additional that would need to be done. I think generally you would find that the bigger auditing firms are aware of that, and there is a whole process around independence before they accept work.

One of the steps you have to perform right up front is around independence and assessing that, so I would just find it hard to believe that there is anything you can do to enhance auditor independence and the process.

In your opinion do you feel that there is too much or too little regulation and legislation in relation to corporate governance in Ireland?

I think that for what you're dealing with in Ireland, you have to look at it in terms of different industry, I mean in terms of financial services clearly there is regulation there, has it been successful? We won't debate that. I think the issue on too much or too little regulation or legislation goes back to whether should have something like the Sarbanes Oxley, that you have to comply with the combined code, you could put it into that context and say is it going to achieve anything by doing that. In some ways, yes maybe it would but as I said to you as well in some ways it may not, I'm not sure that is necessarily the right approach. I don't know what the right approach is at the moment. Ultimately, in a couple of years time, once things have settled now after all the trials and tribulations we have been going through I do think there will be a re-look at what is required to ensure there is good corporate governance within organisations.

Do you think there should be more enforcement in relation to the current legislation rather than implementing new legislation?

I suppose that is why is said to you in terms of best mechanisms, around various mechanisms that are there under corporate governance, you need to

ensure that those are done right. Now if you have something that could insure that pieces are dealt with appropriately and you have the right people in place, then you would have I think less of a need to legislate and regulate as such, as it would be then almost something that was a given and would happen properly. It is dependent on auditors and watching auditor's integrity and ethics, it is the same thing around your individuals who are responsible for corporate governance within organisations, if you have the right people in place. If you could get something to ensure that and enforce that, then I think you would achieve a lot of what you have to achieve.

In the last decade there has been considerable criticism of Auditors in relation to corporate failures. This has led to considerable amount of legislation and regulation being implemented worldwide to enhance Corporate Governance and the role of the Auditor.

Do you feel that the role of the Auditor has become too regulated and would this affect your decision to pursue a career in Auditing in the current environment?

There are a lot of people who have left the profession because it's over regulated and because there is so much out there that you need to know now before you can actually put pen to paper, and obviously I am talking at a partner level and those who are responsible individuals. I would say that it certainly had a negative effect where people have said "it's too much to try and keep up with everything and comply with everything", so they would tend to move on. I would honestly say if you pursue a career in the current environment, you have got to be a certain type of person to do it and stick by it, there is almost too much at this stage, it's almost as bad as being a doctor.

In a lot of ways certainly if you look at it from an audit perspective only, there are so many things that you need to know you should have done before you can sign off on the audit, that it does result in a bit of box ticking. Now, I agree that there is certain things that you need to ensure and you need evidence that you have done them, so there might be simpler ways to do that if we didn't feel it was so regulated in terms of ensuring what's best, and yes it does distract from really getting to know the business and looking at it in more depth as your focus is on trying to ensure you cover all the x, y, z from a compliance perspective. So, it can unfortunately get into that sort of mentality, which can have a negative impact on, well maybe not a negative impact but it is not the best way to approach an audit.

Do you feel auditors are unjustifiably blamed when things go wrong and that more responsibility should be placed on directors and is their an audit expectation gap?

I think in some respect, once again while people are independent and going in there to offer an opinion, clearly there are certain things that you could only do so much as an auditor and one of the biggest things is management over-ride. If management want to do something wrong they will do it

wrong and they will cover it up and they can make sure that you won't find it. I mean let's be honest there are ways of doing things and because of the way that you approach an audit, you're not expected to look at every concept and pick up on everything. As much as you go in there with the best intentions and you intend to do an independent audit, if management have covered it up there is nothing we can do about it and we can't be blamed for that as far as I'm concerned. You know we are not there to hound them and go and hunt everything down, you do what you need to do, you follow the prescribed standards, and you do all the necessary things and if they're going to not tell you about it and not reveal certain things, chances are you probably won't find it. The responsibility should be once again about getting the right people in place on your board of directors, linking back into the question around best mechanisms and ensuring corporate governance. You have people in there who are the right quality of individuals and who understand these types of things you would have less of an issue between what directors responsibility is and what auditors responsibility is, in terms of the gap of who expects who should be doing what.

I think the reason why auditors get so much criticism is due to the audit expectation gap, and I do think the general public and even those in certain financial analytical set ups do not necessarily fully appreciate how an audit is conducted and therefore what the possible outcome on an audit is. There is judgement involved, there has to be some judgement involved, not everything is a rules based thing and therefore one auditor could come up with a different opinion to another on an issue as they have applied their judgement to the circumstances and you will come up with an answer and I don't think people necessarily appreciate how certain things need to be addressed. Not everything is black and white when you do an audit.

Do you feel the auditor should be more accountable when things go wrong?

It is very difficult, as in those particular instances when something does go wrong, and this is again because the very litigious society, where everybody sues everybody and takes you to court. I suppose yes there is a confidentiality, there is also confidentiality around the fact that the work papers are your working papers and not the clients and not anybody else's, they are not public because they support our opinion and obviously auditors don't come out because they are waiting to see what the outcome will be to see whether there is going to be an litigation against them, because if they are saying anything it could be held against them in a court case. So there is a hesitancy to come out I suppose fighting and say but you don't understand, because ultimately they are waiting to see what going to fall in terms of whether someone wants to take them to court or not, and that's where they will literally get their day in court to explain how they went about it. It is a difficult one to answer in terms of whether they should or shouldn't say something, and clearly when cases come up you look at it and think well if only we could say something, but as a professional organisation you have to bear in mind we are governed by certain ethics

and things and you want to be able to comply with that and deal with it as best possible in the circumstances, and that unfortunately does seem to preclude you from naming and shaming in public around a particular situation.

How do you feel that corporate governance could be enhanced to protect shareholders and stakeholders value?

I mean that one links back into the mechanisms established in the combined code, again in terms of what your best and most effective mechanisms. I think the mechanisms and the implementation of those mechanisms is ultimately where you can enhance all of them and ensuring that is what I think the best way to try and improve corporate governance, is to look at how do you ensure that the right people are sitting there, to do that job within those five bodies within corporate governance within an organisation. If you could get that right, you're automatically going to enhance it and give your shareholders protection and comfort as well as your stakeholders.

Do you think directors on a board should be educated or qualified in their role as a director?

I think that certain respects if you look at the UK, there are a lot of places that run these academies for directors and yes I know there are some organisations here in Ireland that run courses and that sort of thing, I certainly think if your operating at a certain level as a director there should be a requirement that you not necessarily need a diploma, but you need to be almost like we have to do continuous professional development (CPD). I almost feel there should be something that gives directors a requirement once they are operating within certain levels that they do go and get updated on things like corporate governance and all those various things that are out there. Yes, they do look at things but if not necessarily a focus, it would be no harm I would think to give them some sort of requirement to say look you have to be able to say that you have at least attended this and you got the update and your fully aware of x, y and z.

I have found that from my literature review that Irish legislation does not require the audit committee to have any member have financial experience where as the combined code establishes that at least one member must have financial experience. How do you feel about this?

I certainly think that is almost essential and someone who would understand the financial side of things, so whatever Generally Accepted Accounting Principles (GAAP) that the financial statements are being issued in whether it's the IFRS, or Irish GAAP, US GAAP or whatever, they need to have that expertise as they do need to be able to review the financial statements and say do they make sense and when the auditors give their feedback in terms of what they found, you need someone to understand what you're saying when you're talking accounting issues. So I do think that it is absolutely vital and I also think that the individual or

someone on the audit committee needs to understand and be fairly opaque with an audit process and how you go about it, I mean as auditors you do explain it to the audit committee but it is useful if someone knew what an audit was. Perhaps they need to be a qualified chartered accountant who would appreciate what this is all about as well, as they have a clear understanding and could challenge the directors and auditors as well.

How do you feel Irish corporate Governance differs from SOX and the King report in South Africa?

Corporate governance in South Africa (well I haven't been there for a few years) I would certainly say they have what would have been the Cadbury report in the UK; they had something known as the King report. That is now in version 3 at this stage. My personal experience is that I would have thought that South Africa was better at corporate governance than Ireland. Years ago in terms of compliance, companies would have taken it seriously and certainly those listed on the Johannesburg Stock Exchange would have very clear views that you will comply with the King report and you will do it, and this has clearly mirrored the Cadbury report and the combined code in the sense. I certainly think there is more of an impetus there to ensure that they comply and do good corporate governance, but I would not necessarily have a full sense of that here in Ireland yet, not to say they are not doing it, but I think it's a little bit behind, probably not encouraged openly as much. Maybe, there is a case of there is less consequences and maybe it is a factor of that, but the implications is that there is less trouble for you if you don't do it. But what you need to try and do in all of this is to try and encourage people to do the right things for the right reasons not because you're going to get into trouble because you didn't do it.

There is a fine line between introducing legislation and regulation to ensure that people do it, you want it to be the carrot and not the stick in that sort of scenario, and there is difficulty in getting that balance right. Personally, I think SOX has encouraged this and has had a huge benefit for global organisations. I can see the change in companies that would have started with where they are now in terms of their approach to internal controls and how they view things and the need to do certain things and why they should be doing them. So it has had a very positive influence, however it was a very costly exercise and the one thing that they need to ensure, when you look at it from an Irish perspective is you do not want to put that sort of a burden on companies, there has to be the carrot there to encourage why it's better to change and implement certain things as opposed to saying well you will get into trouble if you don't implement it.

SOX was a knee jerk reaction, it was over-kill, there is no doubt about it, however if they could have found the balance and lets appreciate it for what it was, something significant happened that affected a significant number of people and for various reasons. Something had to be done quickly, so yes in those cases where it was so bad I think it's human nature to put everything in place, and it was a knee jerk reaction and that's why you will see that the auditing standards and the way that they are

approaching SOX now, five or six years later is less onerous than it was when it was first introduced, so they have sort of backed away from it in terms of what the benefit is and what you need to do, but I do think it has had a positive and overall effect by stepping back from it. The intentions were right at the time in terms of what they were trying to achieve it was just how they went about it, unfortunately it was too rigorous, and that's why I'm always hesitant to say to bring things into Irish legislation because you have got to learn from the experience of other situations and say what is the best mechanisms to get the right result, for the right reasons. "I don't have a crystal ball".

Any other comments you would like to add? No, I don't think so. Good luck with your thesis.

Interview Partner C

In your opinion how would you define corporate governance?

In my opinion Corporate governance is about systems, checks, balances needed to achieve corporate goals and objectives, in terms of sustainability and corporate accountability, in order to achieve transparency.

As corporate governance has evolved rapidly over the last two decades, a number of theories have developed surrounding the parties who most need its Protection. In your opinion, is corporate governance most essential to protect the shareholder or the stakeholder needs?

In my opinion, I would suggest Stakeholders, I would also suggest that the stakeholders include wider groups of individuals, including shareholders. Corporate governance has a wider role which considers stakeholders and plays an important part in society. This suggests that there is a wider need than just shareholder needs.

The Irish stock exchange requires that all Irish listed companies must disclose a statement in their annual reports on their compliance with the combined code on corporate governance, known as the "comply or explain" approach. This differs from the USA (Sarbanes Oxley Act) which adopts a rules based approach to corporate governance. This means that it is compulsory for all listed companies to comply with the SOX Act.

Do you believe that Ireland should adopt the US rules based, Sarbanes Oxley approach to corporate governance?

No, frankly, I honestly don't see the two equating; I think Sarbanes Oxley is more in relation to financial reporting. Whereas the combined code is more mumbo jumbo, but it is different, at the end of the Sarbanes Oxley

you get a report and all that sort of stuff and it is much more hard hitting and much more narrow. You may still have a corporation and many more failures where the accounts are right but the business fails, even though. You take a recent example of Anglo, the accounts were right but still failed. Routine businesses fail, for example a company may comply with all corporate governance requirements and pass the Sarbanes Oxley but still fail. Sarbanes Oxley is good but it is a business model that combined code seeks to adopt and I see them as quite different, I wouldn't advocate the Sarbanes Oxley approach, and in the USA the whole implementation of Sarbanes Oxley was way over the top, people very soon realised it was far too detailed and the whole emphasis in the USA was to roll back from that and continues to do this.

The combined code on corporate governance has introduced many corporate governance mechanisms, such as: Board of Directors, Non Executive Directors, Audit committees, Remuneration Committees and Nomination Committees.

Which of the control mechanisms introduced by the combined code in your opinion is the most effective and why?

Yeah, I find that they are all necessary and have merits, but in my opinion the board of directors, as they are continuously responsible for the control of the corporation. In relation to the combined code the general frameworks established were all good (helpful) and necessary. It was an enhancement or a sort of expedition of changes needed of the combined code to enhance corporations accountability. The changes in the combined code, before we had boards of directors and they were responsible, post their was boards, but the combined code gave a sort of framework to help (best Practice) implement corporate governance. But it is still abused.

Do you think that the combined code bringing in that half the board should be independent non executive directors enhanced the board of directors?

Yeah, I think all these things were worthy concepts, and needed implementation of common sense. The combined code set standards as you could have had boards made up of management and their friends. This encouraged independence and strengthened the board of directors. That was all useful; I think where it falls down is like I said before it is very badly monitored.

Which of the control mechanisms introduced by the combined code in your opinion is the least effective and why?

I think that all the control mechanisms were needed and have merits. You touch on it in your later questions, there really is no challenge you know, we see it in this market were people for their own reasons, decide that they are not going to comply with some aspect of the combined code and in their reports write a waffally paragraph on why they have not, and there are

big arguments as to why they have not complied and no one passes any remarks, no one challenges why the corporation has not complied. The shareholder is not really being taken into account.

Dewing and Russell (2004) argues that there should be more enforcement in relation to non compliance of the combined code. They suggest that a regulation body similarly to IAASA and the Public Company Accounting Oversight Board (PCAOB) should be established in relation to corporate governance. Dewing states “this would not necessarily mean a return to the old-fashioned command and control regulation, but rather a sustained and focused control exercise by a public agency over activities valued by a community”.

In relation to monitoring compliance and non compliance with the combined code, what would your perception be in relation to establishing an independent monitoring body with regards to the combined code and should the ODCE or IAASA carry out this function?

I would have thought that IAASA would have nothing to do with this, as it is more concerned with the accounting profession. I would suggest that this is a good idea and that if anyone was going to carry out an independent review of compliance and non compliance this should be done by the ODCE.

Since the introduction of the Company Law Enforcement Act 2001 particularly the Office Director of Corporate Enforcement (O.D.C.E), in your opinion has corporate governance compliance increased in Ireland? Also, how has the ODCE affected the role of the auditors?

Well to answer your first question, I don't really think the ODCE has had any impact on increasing corporate governance in Ireland. It is not all at the corporate level, the ODCE focused mainly on the micro-level of Irish non compliance. This means that the ODCE focused mainly on smaller enterprises, rather than on the larger corporations. I don't think it has had any material impact on corporate governance, don't get me wrong it had to be done, and they did a good job.

It has had no impact on the role of the auditor; they have a requirement for the auditor to report on certain indictable offences. I don't mean that as a criticism, all it says is that if you come across certain things you should report them to the ODCE.

The Companies (Audit and Accounting) 2003 Act (also known as the IAASA bill), “is arguably the most important piece of legislation affecting the accountancy profession since the foundation of the state”.

In your opinion has IAASA enhanced corporate governance in Ireland?

No, in relation to IASSA we will probably see some incremental benefits in sometime. There was and there is a mechanism there for that, such as the accountancy bodies, Like IASSA didn't change anything, it just put the mechanism into a separate body, and that's why IASSA was implemented. There is a perception that there is regulation in chartered accounting, and it is independent and that is important in relation to chartered accountants. But in my opinion, that was always the case in relation to accounting, as this is the job of the accountancy bodies, and nothing has really changed.

Do you feel that IASSA was established as a double check?

Not really, I think there was always a supervision and regulation but it was a daunting perception and there was some benefit in the establishment of IASSA in the way accountants behaved, at the end of the day you are always going to have your rogue accountants, and IASSA is now probably a stronger tool to go after such rogues, but you will always have your rogues.

How do you feel IAASA has affected the role of the accountancy profession, especially the role of the auditors?

I wouldn't be critical of IASSA, I do think they have merit, I don't think they have affected my role; it will probably come out as a bit self serving. At the end of day auditors audit the set of account and give an opinion in terms of a true and fair of the financial statement. "An auditor is a watch dog not a blood hound", you don't chase every rabbit down every little hole and you can't be expected to. Ok, it's is daunting, you go in and do samples of transactions, and companies are big things, and you can't check everything, someone should be saying hold on a second these guys were there, this is what they did, this is the insurance they gave, it's not perfect insurance, they are not going to find out everything. If something went wrong, the people who are accountable are the guys that did it, not the auditors. I do think that there needs to be a little more balance in the debate about the role of auditors, which might come across a little self serving as I am an auditor, but it's crazy some of the things you read in the papers, and there is no one to defend them.

In your opinion do you feel there is a better way to enhance the external audit and the accountancy profession other than IAASA?

Partner C thought that there was no real need to enhance the audit but to make people aware of the audit expectation gap. He also thought that there was no defence in relation to the auditors. Kieran suggested that the auditors are also to blame for this as they hide under a rock instead of explaining their side.

The Companies (Audit and Accounting) Act 2003 also proposed that auditors should review the Directors' compliance statement but this was not implemented due to criticisms of being too prescriptive and

costly. In light of the recent Irish corporate failures, do you feel that the Directors' compliance statement should be introduced in order to enhance corporate governance in Ireland and why?

No, if you go back to the example of the banks, I'm sure they complied with everything in relation to the combined code, I'm sure they complied with compliance statements for several years and the auditors could sign off on them and the business would still go bust. There is a tendency when something goes wrong we bring in more regulation on a micro level, and more things for people to sign off and so on. Whereas, I think, that it's not about bringing in more regulation and legislation but getting to the bottom of things, you could be knackered, so there needs to be a sense of proportionality in relation to regulation, the automatic reaction can be to bring in more low level rules and legislation, where as when something goes wrong you need to stand back for a second and see what really went wrong and if we need to react lets react and introduce appropriate corporate governance. There needs to be more intelligent regulation, but don't just automatically go and make it more bureaucratic, all that does is penalise the good guys, as these good guys will comply with all these laws and bits and pieces, and bad guys no matter how many compliance statements, laws and micro regulations, they find ways around them. The bad guys won't comply, doesn't matter how good things are. So, director's compliance statement was in my opinion was not a useful tool.

Do you think Ireland should adopt the section 404 SOX Act approach and require auditors to audit and report on management produced internal control reports?

I think I answered this already, as it is rules based. I'm not sure it's useful, from an auditor's opinion, it would create a massive amount of work, but I don't think it's useful, I think it's useless.

The SOX Act also addressed issues in relation to Auditors Independence such as: prohibits an auditor from conducting certain consulting services (non audit services) for their audit clients, tightened auditor rotation from 7 to 5 years and establishes criteria so as to reduce conflict of interest between the auditor and the client. In your opinion how do you feel that auditor Independence could be enhanced to strengthen the value of the external audit in Ireland?

We have ethical standards and we comply with IFAC (international financial auditing committee), it would be useful to have codified what is in the standards and so forth.

Partner C felt that there was no issue in relation to auditor independence in Ireland. In his opinion, there is no conflict of interest in relation to auditor independence that would affect the auditor in carrying out his duties, and express an opinion on whether the accounts give a true and fair view.

In your opinion do you feel that there is too much or too little regulation and legislation in relation to corporate governance in Ireland?

Yes, I think we need to get truly serious about corporate governance, there is considerable amount of regulation and legislation, but it needs to be more to the point and better implemented. There are different people that have roles to play in the whole thing; the gap around governance is in relation to manipulation of compliance. Companies can ignore the rules and if they don't comply nothing happens. It is vary opaque, there needs to be more transparency and so forth to increase corporate governance, and we need to comply with them.

In the last decade there has been considerable criticism of Auditors in relation to corporate failures. This has led to considerable amount of legislation and regulation being implemented worldwide to enhance Corporate Governance and the role of the Auditor.

Do you feel that the role of the Auditor has become too regulated and would this affect your decision to pursue a career in Auditing in the current environment?

At a macro level I don't think the auditor's role has become to regulated, I think some balance should come back. broadly I don't have issues with the regulation that has been introduced, but to be honest it can get a bit scary sometimes that you could be hauled over the coves and you could lose your career due to minor issues relating to auditing standards, there is a need for rebalancing, this may be necessary, but this is not the time to get this rebalancing in the auditing standards.

In the USA, there was a question asked whether auditors would pursue a career in auditing as Sarbanes oxley, and most thought they would think twice about it, as it has introduced too much legislation and they don't have the resources to do all the work Sarbanes Oxley requires.

Yeah, this goes back to what I was saying earlier about Sarbanes Oxley, which was way over the top and too narrowly confined, and very much an internal control and financial statements. In relation to internal controls such as cash was not verified, fixed assets were over stated, basics control failed, that's fine, but, governance is a broader issue over and above that, it's about the business direction, e.g. lending all your money to developers. Governance is a broader issue; it's about how you treat your customers, employees, lenders.

Do you feel auditors are unjustifiably blamed when things go wrong and that more responsibility should be placed on directors and is their an audit expectation gap?

There is an audit expectation gap, the audit is in accordance with the auditing standards, and gives a level of assurance and you report on a framework of say international financial reporting standards which is the rules. The rules may not be realistic, as IFRS rules can be interpreted in many ways. So I do think there is an enormous audit expectation gap in Irish society.

I think that when things go wrong the auditors get beaten up and receive huge criticism due to the expectation gap. When corporations fail, the auditors receive the blame, But they may not be, people need to understand the role of the auditor and their work in order to decide and it would do society good if someone addressed this gap and in debates. don't get me wrong, there intelligent people and entitled to a point of view, and the other point of view needs to be put out as well in terms of the debate and society would be better if that was put out there. The auditor has a really important role don't get me wrong and when things do go wrong there are valid questions which need to be answered.

The partner felt that the auditor was to blame in this gap as he feels that auditors should be more accountable when things do go wrong instead of hiding under a rock.

Do you have any idea of how the audit expectation gap could be reduced, e.g. through education system of accountants, making society more aware or debates?

I think that auditors need to be more accountable, the natural reaction is to say nothing, we are kind of constrained the auditor itself is constrained because of client confidentiality and you can't talk about the client affairs and I think we hide behind that as well. It's about communication, which is a key issue. I think the best thing to do is to have debates to make society aware of the auditor's role and auditors are not in the pocket of management.

How do you feel that corporate governance could be enhanced to protect shareholders and stakeholders value?

I think we need to get more serious and get away from the public relations exercise of complying with the combined code, based exercise to measure corporate governance and standards for our public company entities it is very true. We need to establish a proper challenge in relation to compliance and non compliance in Ireland it's too wishy-washy.

Any other comments you would like to add?

I think you look on and look at the Cadbury code and it's got 14/16/18 codes and I know doing an audit sometimes and your ticking this list but you're not sort of thinking qualitatively about it, for example you could be ticking all the boxes but your corporate governance can be crap. I think that more rules for people to tick boxes is not the way forward.

Remember that it was Brian Cowan and Brian Lenihan last September told you were not patriotic; you were going to talk Ireland into a recession and two weeks later we turn around and we discover we have a big problem. But people who were standing up and I'm not saying that Joe Duffy is the place to have the debate for corporate governance, but people who were standing up and saying it's not right were told to be quiet.

George Lee used to say house prices were too high and lending was too much for houses and Bertie Ahern was coming out and saying he was not patriotic and talking the country into a recession and there is a view in Ireland that you have to toe the line and people are not allowed to say what they think and it goes right down through to all areas of society including corporate governance, and George Lee was right, and Bertie was wrong and if you look who is patriotic now, George Lee was patriotic and I'm being very extremist, but if you found that someone stood up and said this is wrong this is not right, these people are not up to it, they are dismissed as cranks and your talking down the share price. People are not allowed to say what they think; I think it's about having what I say facing up to and not bringing in more regulations than we ought to.

In relation to audit committee, Irish legislation states that it should consist of two independent directors who do not need financial experience, whereas the combined code suggest that a least one member should have recent and relevant experience. What is your opinion on this?

I think they should be all independent and at least someone on the audit committee should have some kind of financial or accounting experience. I know Sean Fitzpatrick came out and said there are too many bloody accountants on boards. But yes someone on the audit committee needs to be able to understand what is going on and raise questions if need.

Interview Partner D

In your opinion how would you define corporate governance?

In my view it is probably the tone of the top, the right tone that flows through the organisation, and I think it is just people being seen to be doing the right thing. I'm not sure if it's the same from one organisation to the other (I don't think one size fits all) so for very large organisations you also need audit committees and need to have a very formal process in relation to corporate governance, but you can actually have very good corporate governance for smaller organisations, just with the right lead such as chief executive and key people (board of directors). I'm not sure you need to have all that much corporate governance profile, you need to have formality but maybe not that much I think.

As corporate governance has evolved rapidly over the last two decades, a numbers of theories have developed surrounding the parties who most need its protection. In your opinion, is corporate governance most essential to protect the shareholder or the stakeholder needs?

It's an interesting question; I think it's a mix. I think it has to be both, because I think it's probably fair to say that various stakeholders, and if you even take what's happening at the banks at the moment, what happened has failed corporate governance and impacted not just the shareholders but stakeholders and I know primarily corporate governance is concerned with the shareholders, but I think for various parties to deal with companies, therefore stakeholders are important and maybe the key stakeholders are government. The right corporate governance and the tone coming out of the Anglo stuff recently, I think this is what sets the tone and shows the need for a stakeholder approach.

The Irish stock exchange requires that all Irish listed companies must disclose a statement in their annual reports on their compliance with the combined code on corporate governance, known as the “comply or explain” approach. This differs from the USA (Sarbanes Oxley Act) which adopts a rules based approach to corporate governance. This means that it is compulsory for all listed companies to comply with the SOX Act.

Do you believe that Ireland should adopt the US rules based, Sarbanes Oxley approach to corporate governance?

No, I am more in favour of the principle approach to corporate governance such as the combined code. I think it is about trying to encourage companies to do the correct thing and not force them.

The combined code on corporate governance has introduced many corporate governance mechanisms, such as: *Board of Directors, Non Executive Directors, Audit committees, Remuneration Committees and Nomination Committees.*

Which of the control mechanisms introduced by the combined code in your opinion is the most effective and why?

I would think a properly constituted audit committee which works in tandem with the board and the non executive directors is a good balance, and I would say that those three are more important than remuneration and nomination committees. I just think if you got the right chair of an audit committee asking the right questions in terms of earning management or again challenging management, I think you need a good balance there. Now the issue is people say that audit committees are not properly constituted, they don't have the right people, they don't have people that's going to ask the question, and even now they don't have people that are

qualified to ask the right question, then you have others who are too close to the board and don't feel they can ask the question.

I have found that from my literature review that Irish legislation does not require the audit committee to have any member have financial experience where as the combined code establishes that at least one member must have financial experience. How do you feel about this?

I certainly feel the chair needs to be a sophisticated financial person, and I think it could sustain the value of a business certainly for a PLC, the rules around a former finance director of another PLC or effectively an audit partner. I think it does need to be at that level. There is definitely a need for someone on the audit committee to be qualified to understand what is going on.

Which of the control mechanisms introduced by the combined code in your opinion is the least effective and why?

In my opinion, the remuneration and nomination committees would be least effective. You can see that in that Irish companies have cross directorships on boards and there are lots of other issues around these areas.

Dewing and Russell (2004) argues that there should be more enforcement in relation to non compliance of the combined code. They suggest that a regulation body similarly to IAASA and the Public Company Accounting Oversight Board (PCAOB) should be established in relation to corporate governance. Dewing states "this would not necessarily mean a return to the old-fashioned command and control regulation, but rather a sustained and focused control exercise by a public agency over activities valued by a community".

In relation to monitoring compliance and non compliance with the combined code, what would your perception be in relation to establishing an independent monitoring body with regards to the combined code and should the ODCE or IAASA carry out this function?

I don't think that we should establish an independent body, with regards non compliance, I think the ODCE or IAASA could carry out this function, and I think some of this comes back to a sensible approach to non compliance, you don't want to make it too rule based. If you make it too rules based people will probably get caught out on very technical pieces of it and actually we won't be getting to the heart of the problem. If you think about it at the moment the action that has taken place in relation to the national Irish bank directors isn't that far off governance actually, and effectively he (the ODCE) is policing that piece right.

Since the introduction of the Company Law Enforcement Act 2001 particularly the Office Director of Corporate Enforcement (O.D.C.E),

in your opinion has corporate governance compliance increased in Ireland? Also, how has the ODCE affected the role of the auditors?

I think on a detailed level, if we take an example of companies filing their accounts and getting that kind of micro management, that's definitely improved following the ODCE because of the threat of being struck off, being more actively monitored. I think to be fair the focus on governance maybe having the right functions and if you take the internal audit in that type of area, I don't think that has come from the ODCE, I think that comes from what gone on internationally, if you see the reaction of Sarbanes Oxley and stuff that has gone on in Europe, well I think a lot to do with it is the different standards now. About 15 years ago a different standard was expected compared to what is expected now, but I'm not sure how much credit the ODCE can take for that because in my view it's been fairly egoistic, I think it would take about 5 or 10 years before we can say that any action in due to the ODCE.

I don't think the ODCE has really changed the role of auditors to be honest, I would say IAASA has but not the ODCE.

Do you think the ODCE are focusing on smaller companies rather than larger corporations?

Well, I think the ODCE is very focused on all the tick the box compliance and policing the 130 or so indictable offences, but actually how many of those actually will cause the company to fall over. There is a few things when you talk about section 60 or whatever, that are reported but I wonder rather than looking at the indictable offences should they be looking at these a bit differently.

The Companies (Audit and Accounting) 2003 Act (also known as the IAASA bill), "is arguably the most important piece of legislation affecting the accountancy profession since the foundation of the state".

In your opinion has IAASA enhanced corporate governance in Ireland?

Yes, I think if you read the legislation right this thing has the ability of a fair amount of teeth, the interesting thing that we have seen in the last twelve to eighteen months is they now actively do reviews of accounts, and they do send letters to the companies and that involves the auditors who are also responsible for making response. So where there is lack of disclosure or potentially incorrect treatments they are actually asking the question. I think that's been helpful where in situations in the past were auditors find themselves in a difficult place when management won't do something. The threat of actually being able to say well if you don't do this it's not just us; you could have IAASA send you a letter next week.

Do you think IAASA are not needed and are the accountancy bodies doing their jobs correctly?

I don't see a problem with the principle of IAASA an independent body outside the accountancy profession, I suppose if you think about IAASA though given that the directors compliance statement did not come in right other than them reviewing accounts what actually are they doing at the moment? So I think there is a need for both of them, they are carrying out similar but different jobs.

In your opinion do you feel there is a better way to enhance the external audit and the accountancy profession other than IAASA?

I think there is something to be said and we had this debate a lot I suppose even in terms of the Institute of Chartered Accountants regulating itself. I think IAASA being established and being independent was no harm, and I think even from a governance (even for ourselves) perspective that is outside the accountancy bodies is no harm, I think it is playing a role at the moment. I suppose it comes back to again when you take it to ODCE, what will they actually deliver on recent failures in Ireland. Only time will tell but I think it is very difficult to enhance the external audit as it is so well established at the moment, maybe it could be bettered in structure and layout. I mean this in relation to the way audits are performed.

The Companies (Audit and Accounting) Act 2003 also proposed that auditors should review the Directors' compliance statement but this was not implemented due to criticisms of being too prescriptive and costly. In light of the recent Irish corporate failures, do you feel that the Directors' compliance statement should be introduced in order to enhance corporate governance in Ireland and why?

Yes I do, and I would make a few changes to it, the companies act in 2003 says that directors must certify that they were in compliance with all legislation relevant to the company. I think that was too broad, the issue even that the companies were working through it; they were actually coming up and talking about very obscure health and safety legislation. It was just too broad they were even being asked to assert how they complied with every single aspect of the companies acts. I think you can take what the Sarbanes Oxley has moved onto now in the new standard AS5, and the top down approach and that management have a process of ensuring all risk is covered off. I think it would have been very powerful to have the directors at Anglo sign off a compliance statement, if they were happy that the control procedures were operating effectively in the business, for example in the last 3 or 4 years. I think we have missed that opportunity, if you take it now if something happens in one of the US companies that the CFO and CEO etc signed off saying they had a proper design system of internal control; it just gives you something to measure against.

Do you think Ireland should adopt the section 404 SOX Act approach and require auditors to audit and report on management produced internal control reports?

Yeah in small form, (I tend to be in favour of the Japanese model). I don't think we need to; I think we should just report on management assessment rather than report ourselves. I wouldn't be in favour of going back to the AS2 approach; I think the top down audit based approach is a much better way.

The SOX Act also addressed issues in relation to Auditors Independence such as: prohibits an auditor from conducting certain consulting services (non audit services) for their audit clients, tightened auditor rotation from 7 to 5 years and establishes criteria so as to reduce conflict of interest between the auditor and the client.

In your opinion how do you feel that auditor Independence could be enhanced to strengthen the value of the external audit in Ireland?

I suppose your getting into almost should the audit firms almost be semi-state, and in my own view given the level of knowledge that an auditor gets from doing the audit of a business, there is actually a fair bit of value that the auditor can bring, once its properly monitored right in terms of audit services.

I think it would be very disruptive for business if they had different service providers in doing different jobs just because we are trying to keep very high independence, but I think the audit firms do a good job in my view of ensuring the appropriate check, controls and balances, and independence are maintained, and I think the rules that came in 2003 around the audit committee specifically to require where the audit fees and non audit fees were in a one to one ratio. I think that helps and brings it back full circle that if you have an audit committee which is properly policing that relationship and challenging.

I wouldn't be in favour of the auditor being able to do everything, independence is important. I think the Audit Practice Board (APB) rules are sensible actually, things like not providing valuation or being able to review their own work, those all make sense to me at the moment, because I'm not sure the answer in the US were tax services have to be provided by a different firm, I think a lot of companies are moving back now to have the same firm but just properly policing the point.

I think auditor independence in Ireland is not an issue, as we have both internal and external controls to prevent it. I just wonder where we are going if you just make external audit the only thing that the audit firm can do so I think there is a line though. The APB rules do set out if there is a management threat or self review threat or advocacy threat and as long as you kind of operate within those guidelines I think that is reasonably appropriate.

In the last decade there has been considerable criticism of Auditors in relation to corporate failures. This has led to considerable amount of

legislation and regulation being implemented worldwide to enhance Corporate Governance and the role of the Auditor.

Do you feel that the role of the Auditor has become too regulated and would this affect your decision to pursue a career in Auditing in the current environment?

Yeah, I think in terms of developing people's careers and encouraging them to stay in practice, if someone is an auditor they are purely an auditor and don't do anything else. I think it probably would affect my decision because I like the variety and being able to practice a few different things, (it is the spice of life). I suppose I would say that a lot of regulation is being implemented. I would be nervous about the auditor just starting to tick boxes and fill out forms that I met the regulation and didn't actually think about the risks in the business. So I think there is balance to be sought there as well.

There is actually not just compliance there is also risk, and if you're a banking audit partner in Ireland now that's a tricky place to be, there is a big expectation of the auditor.

Do you feel auditors are unjustifiably blamed when things go wrong and that more responsibility should be placed on directors and is their an audit expectation gap?

I think there is certainly an expectation gap of what the public and the stakeholders expect in general. I think investors, investment managers and professional people tend to understand exactly what they're getting in an audit opinion, but there is clearly a gap.

I do believe thought that there are certain things that have come out in the last number of months or year that probably would have the expected the auditor to take that true risk based approach to be aware of, but I wouldn't say that in all cases. I would also agree with the point that at the end of the day there is a board, an audit committee, executive management, you know if the tone at the top is right I think the auditor is third or fourth line of defence, to be honest.

How do you feel that corporate governance could be enhanced to protect shareholders and stakeholders value?

I think the most important thing we need to do is get some of the structures that are in place and maybe it's easier to get it working better in the UK and other countries where there is a bigger pool of people. The reality that is we have very small pool of people in Ireland and people who don't have the knowledge. I think we need to get better at managing conflicts, or potential conflicts, and people in cross directorships with different relationships are they really the right people. I think that if we have got that set up better (correct), we might have better corporate governance. If you

look back at the moment the number of thing out there that should go well but are they really appropriate for that set up.

I do think as well the director's compliance statement would be helpful, in a broad sense but not a rule based one. I probably think there is some element of education or bringing the general public along in what the various roles are, and I think some of that is going to come out, if you go back to the past year.

Do you think directors on a board should be educated or qualified in their role as a director, e.g. diploma, etc?

Well I think there is no harm in that, I certainly know in terms of KPMG we do our own seminars where we take people through what the expectations are for an audit committee. Because business is moving so fast, there is a lot of regulation coming out it is very hard for someone in a non executive role particularly to keep up to speed. So I would suggest that it would be a good thing and would enhance the board of directors.

Any other comments you would like to add? No, that seem to be all you have a good research paper, all the best with it.

Interview Partner E

In your opinion how would you define corporate governance?

There are lots of definitions of corporate governance, but at the end of the day it is as I would see it about the guidance for the directors and their fiduciary responsibilities in relation to managing companies affairs, in the best interest of all the stakeholders, that includes shareholders, customers, employees, tax man and any other relevant regulatory bodies.

As corporate governance has evolved rapidly over the last two decades, a number of theories have developed surrounding the parties who most need its protection. In your opinion, is corporate governance most essential to protect the shareholder or the stakeholder needs?

It is absolutely essential, but we also need company law to protect stakeholder's needs, we can't forget that either because different stakeholders have different interests, for instance employees would be a good example, as employment protection is very important.

Do you think one is more essential than the other?

It is more relevant to shareholders, but you need to be aware of stakeholders.

The Irish stock exchange requires that all Irish listed companies must disclose a statement in their annual reports on their compliance with the combined code on corporate governance, known as the “comply or explain” approach. This differs from the USA (Sarbanes Oxley Act) which adopts a rules based approach to corporate governance. This means that it is compulsory for all listed companies to comply with the SOX Act.

Do you believe that Ireland should adopt the US rules based, Sarbanes Oxley approach to corporate governance?

I don't believe Ireland should adopt the rules based approach to corporate governance. In light of everything that's happened in particular the Anglo Irish bank fiasco; some of the behaviour that was going on within Anglo is going to bring specific addition legislation for people to comply with.

Do you think this is the correct way of proposing more legislation?

I think obviously the existing model didn't work, with respect of that institution and it had very reputable independent directors and I think it's a classic case of if you have one person that has the ability to exercise significant influence then it's not good (management override).

The combined code on corporate governance has introduced many corporate governance mechanisms, such as: *Board of Directors, Non Executive Directors, Audit committees, Remuneration Committees and Nomination Committees.*

Which of the control mechanisms introduced by the combined code in your opinion is the most effective and why?

I think if you take the combine code, what's new arising from the combined code? I think the board of directors and non executive directors have always been in place, audit committees is something that been in now for a while, and that's fine, I think remuneration committees is something that's new and I don't know how effective they are really, but certainly nomination committees there has been a more rigorous process around trying to get new directors into companies. I certainly would see that it has formalised practices and I think that is the biggest benefit of the combined code.

So in my opinion I think a good board of directors is essential in regards corporate governance of a business.

Which of the control mechanisms introduced by the combined code in your opinion is the least effective and why?

They have this notion in the combined code now that they are no longer an independent director, if you serve for 9 years. Companies are riding rough shot over that, there are loads of companies, (I know Grant Thornton does a report on compliance), and show there are a load of non compliance, and I

suspect that not having a sufficient number of independent directors under the code is a thing Irish companies in particular struggle with, because you can have very good people and I believe they can continue to be quite effective after 9 years. I don't think that is taken seriously.

Dewing and Russell (2004) argues that there should be more enforcement in relation to non compliance of the combined code. They suggest that a regulation body similarly to IAASA and the Public Company Accounting Oversight Board (PCAOB) should be established in relation to corporate governance. Dewing states "this would not necessarily mean a return to the old-fashioned command and control regulation, but rather a sustained and focused control exercise by a public agency over activities valued by a community".

In relation to monitoring compliance and non compliance with the combined code, what would your perception be in relation to establishing an independent monitoring body with regards to the combined code and should the ODCE or IAASA carry out this function?

In my opinion I would be in favour of having a regulatory body monitoring compliance and non compliance with the combined code. Also, I would have no problem with IAASA who I think is the appropriate body in Ireland to carry out this review. I don't know because there is a lot of judgement around and I think it's a very hard one to monitor, I think if companies give a very good explanation for not following the code, then that works quite well pro rata. Then I think there can be good reasons not to do it.

Since the introduction of the Company Law Enforcement Act 2001 particularly the Office Director of Corporate Enforcement (O.D.C.E), in your opinion has corporate governance compliance increased in Ireland? Also, how has the ODCE affected the role of the auditors?

The first part of that is that the ODCE significantly improved compliance; I think an important part of that is the company's office has invested in technology and is much more active in following non compliance with company filings.

It has fairly affected the role of auditors as they are required to correspond with the ODCE and report non compliance that they see (Indictable offences). So, it has affected them, there is not an auditor that has not reported some matter to the ODCE, you have had however a litany of trivial offences being reported to the ODCE, and I know the ODCE have tried to roll back and reduce the scope of audit reporting to them, so I think we probably have a good balance at the moment.

Do you think the ODCE is focusing on smaller companies rather than larger corporations?

In my opinion, I think smaller companies tend to be on average non compliant, but you know there is less of a compliant culture, large companies tend to have very responsible governance regimes and people responsible for compliance, and my instances where I have been reporting companies tend to be small companies because of my large clients are all compliant.

The Companies (Audit and Accounting) 2003 Act (also known as the IAASA bill), “is arguably the most important piece of legislation affecting the accountancy profession since the foundation of the state”.

In your opinion has IAASA enhanced corporate governance in Ireland?

I wouldn't think so yet really, I think it's making some progress in terms of its review processes and certainly the Irish public companies are aware of it and I think in terms of the corporate governance combined code it really is, what people would have an eye to.

How do you feel IAASA has affected the role of the accountancy profession, especially the role of the auditors?

In my opinion it will do, it's still early days, I think we have only had our first review by the consultative committee so you know I'm not sure yet, but I think it will in future. In my opinion, I believe that the accountancy bodies are doing the same job to a high standard.

In your opinion do you feel there is a better way to enhance the external audit and the accountancy profession other than IAASA?

I think the expectation gap as they describe it, IAASA is not the solutions to that, I always think when you have audit failures, a disproportionate amount of blame gets put on the auditors. The auditors can only do so much; they can only do a certain level of testing and the competitive pressures that are out there to spend less time with businesses, it make auditing a very difficult profession.

The Companies (Audit and Accounting) Act 2003 also proposed that auditors should review the Directors' compliance statement but this was not implemented due to criticisms of being too prescriptive and costly. In light of the recent Irish corporate failures, do you feel that the Directors' compliance statement should be introduced in order to enhance corporate governance in Ireland and why?

No, I think it would be extremely costly, I wouldn't have seen the particular benefit to it; I think you can immerse business in too much red tape and I think that's what was going to happen there, if the directors' compliance statement is implemented. You basically are reducing the productivity and the competitiveness of Irish businesses by going down

that route and I don't think the benefits would outweigh the costs. I think most businesses try and be compliant.

Do you think Ireland should adopt the section 404 SOX Act approach and require auditors to audit and report on management produced internal control reports?

No, I don't I think we have big enough businesses in Ireland to warrant the cost and investment and that would be required.

The SOX Act also addressed issues in relation to Auditors Independence such as: prohibits an auditor from conducting certain consulting services (non audit services) for their audit clients, tightened auditor rotation from 7 to 5 years and establishes criteria so as to reduce conflict of interest between the auditor and the client.

In your opinion how do you feel that auditor Independence could be enhanced to strengthen the value of the external audit in Ireland?

This is something I feel very strongly about; I think there is a perception that auditor independence is a problem, which has to be tackled. As an auditor I feel completely the opposite and I know when we are doing projects in my audit clients, I always ensure that the scope of the audit means that there is no issue or conflict in regards auditor independence. A lot of it actually helps the auditors because we're doing work that really helps the understanding of our business and were helping solve a problem.

I don't think there is any conflict doing any other services as long as they are disclosed, which they have to be and are pre-approved by the audit committee (which is what the SOX act requires). I think that once there is a sensible level being kept it is not an issue in relation to auditor independence, and this does not affect audit services in our practice work.

Yet I think if you're going to have auditor rotation amongst the big firms then we are in very bad territory for companies as audit costs will increase substantially. If you take the investment that is required in year one to get to know the client and if you only have a five year horizon to get that investment back, well then it's going to be very expensive for business. You also have an issue were people believe the big 4 are interchangeable. The reality is that there are only two audit firms in Ireland that could audit the two big banks, because the expertise is not in the other two firms. They would have to bring in people from the UK or USA, where they have financial experience in auditing banks. They just don't have the managers either. Our internal audit policies also contribute to enhance auditor independence.

In your opinion do you feel that there is too much or too little regulation and legislation in relation to corporate governance in Ireland?

Yes, I think in light of the recent corporate failures, I certainly think we need to have directors more on a hook by law in relation to their actions, so certainly I think the sanctions under the companies act are not strong enough for what I think we need, when you see some of the behaviour that has actually taken place.

Do you think that corporate governance regulation and legislation should be narrowed to focus on key areas rather than have so much regulation and legislation?

I think they should certainly keep the current legislation and also introduce some penalties in relation to behaviour by directors. Become a lot tougher on directors.

In the last decade there has been considerable criticism of Auditors in relation to corporate failures. This has led to considerable amount of legislation and regulation being implemented worldwide to enhance Corporate Governance and the role of the Auditor.

Do you feel that the role of the Auditor has become too regulated and would this affect your decision to pursue a career in Auditing in the current environment?

Yes, It's not so much regulated if you take the quality reviews and so on that are in place and under the auditing standards that we are required to have on file and what an audit partner is required to have signed off, it means that day to day I have a huge level of compliance which is basically form filling. In my opinion I don't feel it is value added, it doesn't make the whole career that attractive, because really you should be out there spending more time actually testing than actually filling out forms.

If you take any business you basically assess the risk and that is where you spend most of your time on the audit. Now, on top of that we have to do all kinds of assessment and filling out forms, etc, its administrative but unfortunately when the regulators come in, I could have missed something big, I might not have tested a risk and that might not be picked up on an audit review because the people doing the audit review don't know the client well enough to understand what the real risks are, but I get a green light as long as I have filled out all the forms. I feel as though auditing is becoming a box ticking exercise and taking away the auditors skills to be creative and search for errors.

Do you feel auditors are unjustifiably blamed when things go wrong and that more responsibility should be placed on directors and is their an audit expectation gap?

I think it's fair to say at times the auditor has significant issues, but if you take the Anglo affair they were a small number in a €70 billion book, I don't know if they were in his personal name or whether they were under code names but they were not there actually at year end. So I think it's not

a legitimate question to ask exactly “were where the auditors at that point in time”. When someone has gone out of their way to conceal something from them, I think that were you really need to go and nail the director, I think you need to go to prison if you have lied to your auditors or have deliberately mislead them, but if it is the auditors fault there is justification for asking in relation to material matters. There is a tendency to batter the auditors.

Just in relation to the auditing expectation gap, the gap is very big because the work we do on our clients. On average we spend maybe a month to two months on site with clients, and there is 12 months in a year so you can't possibly be checking everything or know everything going on in a business. If you wanted to blame auditors the way you just have auditors would be doing work the whole time, but that is a bit of extreme measures.

Do you think auditors should be more accountable when things do go wrong?

There is obviously confidentiality issues that would need to be addressed in that regard, you can't be commenting, and be loosely commenting in public, but there is unfortunately no right model, because the problem is that it's a competitive market for auditing services so you have a situation were in reality your fees are set by the people you are checking and clients can be quite aggressive with you, and try to ensure that you spend less time and that means there can be pressure on to take short cuts. I think we have a very strong auditing profession in Ireland, with very strong people in it of very good quality, but it can be difficult, as there can be tensions and can be things that come up.

How do you feel that corporate governance could be enhanced to protect shareholders and stakeholders value?

I think that IAASA may be following up with the non compliance element. We need to understand that a bit better and I think it's a form of public revoke that it can do which is quite effective in the UK. I think we can learn quite effectively from the UK in terms of the equivalent body to IAASA, but it does publish letters and correspond to them in relation to businesses.

Any other comments you would like to add? No, I think that's cover everything.