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**AN INVESTIGATION OF REGULATIONS AFFECTING SMALL  
AUDIT PRACTITIONERS: A PRACTITIONER'S VIEW**

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## ***Abstract***

Statutory auditors are of critical importance to the efficient operation of the economy and capital markets. They perform the public assurance role, by giving credibility to audited financial statements and by acting in the public interest.

In Ireland, regulations affecting statutory auditors have been evolving since 1963. However, recent years have characterised a significant escalation of the regulations affecting statutory auditors. On the one hand, legislators have imposed many new 'whistle - blowing' obligations on statutory auditors in order to protect investors and in the name of the public interests. On the other hand, the APB, driven by a need of harmonisation and also investors' protection has introduced the universal set of the ISAs.

This study has shown that all of the new regulations were designed for audits of large, often multinational companies and they are not necessary appropriate for small audit practices. It also reveals that the volume, complexity and rigidity of these regulations put an unnecessary burden and pressure on small practitioners. This research further presents the views of small audit practitioners on the new regulations and also assesses the effectiveness of these provisions taking into account the special relationship between small practitioners and their clients.

In addition, this thesis discusses the proposals concerning different concessions for small practitioners such as: de minimis provisions, an introduction of a separate set of standards and also exemptions from certain provisions. Furthermore, it evaluates and recommends how the small practitioners can cope with the high burden of regulations in the fast changing regulatory framework.

Finally, this study anticipates the potential future of small audit firms in light of the current project of the European Commission considering an increase of the audit exemption threshold to €10 million.

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# **Chapter 1**

## **Introduction**

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## ***An introduction to the topic***

*“In God we trust, all other we audit.”*

Historically, up to the end of the 20<sup>th</sup> century, the regulatory framework for small audit practices was relatively uncomplicated. This framework was mainly shaped by two sets of regulations, namely SASs and the Company Acts. Under the Company Acts auditors main reporting duty was to state whether proper books of accounts were kept by the company. However, the beginning of the 21<sup>st</sup> century has brought many new auditors’ duties as well as changing existing ones. Some of the changes are the consequence of the quality review and the others are the consequences of the accountancy scandals on both sides of Atlantic. At present, auditors carrying out statutory audits in the Republic of Ireland have to comply with the following laws and regulations:

- International Standards on Auditing
- Company Acts
- Tax Laws
- Anti - Money Laundering Legislation.

The objective of this research is to investigate the regulations affecting small audit practices. Therefore, the following chapters will discuss the development of regulations as well as each of the aforementioned regulations separately.

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## **Definition of Terms**

### **Definition of auditing**

*“It is an investigation or a search for evidence to enable an opinion to be formed on the truth and fairness of financial and other information by a person or persons independent of the preparer and persons likely to gain directly from the use of the information and the issue of a report on that information with the intention of increasing its credibility and therefore its usefulness.”* (Gray and Manson 2000, pg. 17)

### **Definition of Regulation**

Department of Taoiseach (2004) defines the regulation as primary legislation enacted by the Oireachtas and secondary legislation enacted by Ministers empowered under primary legislation.

However, Indecon (2006) describes a regulation as an intervention that is introduced in order to achieve a certain outcome that otherwise would not be expected to arise. Furthermore, it interprets the burden of regulation as the cost incurred to adapt companies’ current behaviour to the requirements of specific regulation. (Indecon, 2006)

In addition, the Department of Taoiseach (2004) states that a good quality regulation should possess the following characteristics:

- Necessity
- Effectiveness
- Proportionality
- Transparency
- Accountability and
- Consistency.

### **Definition of small audit practice**

As there is no formal definition of small audit practice, the small audit practice for the purpose of this research is defined as having 5 or fewer partners.



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## ***Research aims and objectives***

The aim of this research is to investigate the regulations affecting small audit practices. The research question is as follows: Are the small audit practices overburdened by the laws and regulations in Ireland? This question can be subdivided into a number of the following research objectives:

1. To investigate the development of regulations affecting auditors
2. To investigate the level of regulation of small audit firms
3. To assess the level of compliance of small audit firms with regulations
4. To assess the level of adaptability of small audit firms to changing regulatory framework

## ***Potential usefulness and limits of the research***

### **Usefulness**

This research could have particular interests to the government and its agencies such as Irish Accounting and Auditing Supervisory Authority and the Office of the Director of Corporate Enforcement and also to accountancy bodies, lecturers and students. It can be also used by the government and its agencies to re-consider some provisions and regulations for small audit practitioners in order to help them reduce their burden. With regard to accountancy bodies, this research can force them to revise their policies towards small practitioners. With regard to lecturers, this research can be a good teaching material. With regard to students, this research can help them in making decision as to a further career path.

### **Limitations of the research**

This research has its limitations which could not be overcome. These limitations include the following:

1. Time, the researcher only had one academic year to complete the research
2. Financial constraints, which affected the research process and the size of population sampled.
3. Technological constraints, many small audit practices still do not have email addresses.

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# **Chapter 2**

## Literature Review

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## ***Development of regulations affecting auditors***

Auditing has been in existence in our society for over 2000 years. The original meaning of the word audit comes from the Latin language and means ‘a hearing’. However, the legal environment in which auditors operate has been in existence in some form and shape for only 200 years. The main historical factors, which exerted an influence on the development of audit regulations, were an increase in trade and size of the firms as well as the separation of ownership from stewardship. The auditing as we know it today can be traced back to the development of Joint Stock Corporations in the UK in the early 1800s. In addition, today’s auditors’ primary reporting responsibility, namely the need to report by managers to shareholders, originates from the Joint Stock Companies Act 1844. This Act also required for the first time to appoint auditors who were empowered to examine the accounts of the company. (Cosserat, 2004)

In the Irish context, Keane (2003) claims that the enactment of the Principal Act in 1963 has changed the company law landscape. He points out that before the introduction of the Principal Act, there was no legal obligation on Irish companies to keep proper books of accounts. However, this situation has changed after the enactment of the Principal Act, which for the first time in Irish history imposed the requirement on all companies formed under the Act to keep proper books of accounts and “*information to be included in the accounts which are laid before the members*”. (Keane, 2003, pg.393) In addition, McGrath (2003) indicates that the Companies Act 1963 (‘CA’) has also introduced another important requirement, which states that the accounts of all companies, both public and private, must be audited by auditors. The only one exemption to this rule is when the company can avail of a small company exemption. The provisions of the Principal Act relating to the audit have been further supplemented by subsequent Acts, especially by the 1990 Act. The 1990 Act specifies the precise requirements as to the qualification, powers and duties of auditors. Accordingly, section 187(1) Companies Act 1990 stipulates that a person acting as an auditor must:

- be a member of a recognised body of accountants and
- have a valid practicing certificate from such a body.

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In addition, section 187(2) CA 1990 excludes certain persons from being and acting as an auditor. It prohibits the following categories: body corporate, those who have links with the company being audited, undischarged bankrupts and disqualified persons.

Furthermore, in 2001 section 194 (5) of CA 1990, inserted by Section 74 of the Company Law Enforcement Act 2001, has placed new reporting obligations on external auditors. This section requires auditors to report to the Director of Corporate Enforcement if any member of the company has committed an indictable offence under the Companies Acts. (McGrath, 2003)

Apart from the Company Law obligations, auditors are also a subject to other laws and regulations:

- The Anti – Money Laundering

The Second EU Money Laundering Directive issued in 2001 and was implemented in Ireland in 2003 by means of the Criminal Justice Act 1994. This Directive has imposed on auditors a duty to report suspected money laundering offences.

- Tax Law

Section 1079 of the Taxes Consolidation Act has imposed on auditors a duty to report to the Revenue Commissioners, when they come across taxation offences. (ACCA, 2006)

- International Standards on Auditing

With regard to Auditing Standards, the first three auditing standards and six auditing guidelines were issued by the Auditing Practices Committee in 1980. Since then the further standards and guidelines gradually have been evolving. (Collins, 1993) However, in December 2004 the International Standards on Auditing (‘ISAs’) have superseded the old SASs. Currently, ISAs apply to all statutory audits carrying out in the Republic of Ireland. (Pierce, 2005)

KPMG report claims that the main reason for the recent aforementioned developments of auditors’ regulations was the legislators’ response to various failures both nationally and internationally. In consequence, regulatory and professional reforms have been designed to protect investors from audit failure and other forms of corporate misuse and fraud. In addition, they also claim that the other developments

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were the consequence of the necessity to create of one set of universal global standards. (KPMG, 2005)

Furthermore, Gully-Hart argues that the regulators sometimes seek to impose unreasonable duties on auditors, only because they expect that auditors could have intervened to prevent things going from bad to worse. They point out that almost after every financial scandal, the spotlight is on auditors, like it was in case of the recent corporate failures in the US and Europe. (Gully – Hart, 2005) In Ireland, Keane (2003) remarks that an additional factor that drives a growth of audit regulations was the escalating tendency of wrongdoers to avail of the corporate structure and limited liability for illegal purposes.

Jayasuria and Sharp (2006) remark that there is a possible mismatch between the ‘expectations of regulators’ on the one hand and the ‘capacity of auditors’ on the other hand within the realm of duties and obligations. They argue that “*the scope and terms of engagement, the content and structure of training, interface during operations and limitations on access to records and information, among other factors, may seriously impede the ability and capacity of an auditor to reach the levels of expectations set by regulators.*” (Jayasuria and Sharp, 2006, pg. 52) They also state that these expectations are set without having regard to the context in which auditors are trained and are expected to function. They also stress that auditors are mandated to do a specific task and they are not the ultimate solution to every corporate financial problem. (Jayasuria and Sharp, 2006)

Heaphy (2005) supports Jayasuria and Sharp views and further points out that Ireland, to remain attractive business place, should maintain a healthy balance in compliance regime. He indicates that there is a risk that in trying to protect the public interest and investors, the regulators can overreact. He also remarks that on the one hand those that have breached the law must be treated accordingly. However, he adds that on the other hand, business failure in itself is not a crime, as it is a natural consequence of an entrepreneurial environment. He further states that even with competent management and high level of adherence to corporate governance principles and effective audit, companies are still at risk of failure, because company failures are a reality and no amount of regulation imposed on auditors will stop this. (Heaphy, 2005)

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## **Money laundering**

### **Definition**

The Criminal Justice Act 1994 ('CJA') provides the following definition of money laundering:

*“A person is guilty of money laundering if, knowing or believing that property is or represents the proceeds of criminal conduct or being reckless as to whether it is or represents such proceeds, the person, without lawful authority or excuse (the proof of which shall lie on him or her)-*

- a. *converts, transfers or handles the property, or removes it from the State, with the intention of-*
  - i. *concealing or disguising its true nature, source, location, disposition, movement or ownership or any rights with respect to it, or*
  - ii. *assisting another person to avoid prosecution for the criminal conduct concerned, or*
  - iii. *avoiding the making of a confiscation order or a confiscation co-operation order (within the meaning of section 46 of this Act) or frustrating its enforcement against that person or another person,*
- b. *conceals or disguises its true nature, source, location, disposition, movement or ownership or any rights with respect to it, or*

*acquires, possesses or uses the property.”*

In other words, money laundering is a process in which criminals turn cash and assets obtained from criminal activities into legitimate assets using the financial system. In order to disguise the source of money, criminals often use offshore companies as well as complex and difficult to track transactions.

### **Money laundering in Ireland and the European Union**

In Ireland, the implementation of a money laundering reporting regime has been driven by the European Union ('EU'). To date the EU has issued two directives that have forced all EU member states to enact legislation to prevent criminals from money laundering. The First Directive was issued in 1991 and it was aimed at

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financial institutions. The Second Directive (Directive 2001/97/EC) was issued in 2001 and it broadens the scope of the reporting regime to the activities of accountants, auditors, lawyers and other professionals. (Keegan, 2003) Most of the commentators agree that the extension of the EU Directive to the designated professions was a necessary move, which may have a positive effect on combating money laundering. They point out that designated professionals, especially accountants and auditors, are in better position than financial institutions to detect and report money laundering, because, by virtue of their professions, they have access to all transactions and accounts of their clients and in consequence they are able to see the entire picture, not just single and isolated transaction. (Ping, 2006)

The Second Directive was implemented in Ireland via the Criminal Justice Act 1994. The CJA requires practices and professionals to apply a number of procedures with regard to customers' identification, keeping records of identity documents and transactions and reporting all suspicions to relevant authorities. (Baree, 2002)

The recent study done by Financial Action Task Force in Ireland ('FATF') points out that the major sources of illegal proceeds come from drug trafficking, tax evasion, offences in relation to the evasion of excise duties and criminal activities related to terrorism. It also reveals that in spite of an advanced money laundering system in Ireland, many professionals including auditors and accountants have been used by money launderers. Furthermore, the report states that the number of reported suspicious transaction has increased from 3,040 in 2001 to 5,491 in 2004. However, the number of reports made by all designated professionals accounted only for less than 1 percent of the total figure in 2004. Similarly, the number of money laundering prosecutions and convictions remained very low and amounted to respectively 4 and 2 persons. (FATF, 2006)

This low level of prosecutions and a strong increase in reported suspicious transactions could result from the following reasons. Firstly, it could be a consequence of the fear for an accusation against non – compliance. (Harvey, 2004) Secondly, it can be for lack of de minimis provisions relating to reporting of offences in Irish legislation. Therefore, all offences regardless of its seriousness, no matter how small, have to be reported. (ICAI Guidance, 2005; Lambe 2003)

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## Evaluation of money laundering for small audit practices in Ireland

According to survey done by Webb (2004), a great majority of respondents support the aims of the Anti-Money Laundering regulations ('AML'). They agree that some measures are needed to fight financial crime. Another study done by Harvey (2004) states that people perceive money laundering as "an evil which needs to be weeded out". (Harvey, 2004, pg. 342) In spite of such a positive attitude of many respondents to the AML, the current Irish Anti-Money Legislation suffers from many shortcomings, especially with regard to small firms.

Keegan (2003) states that the current legislation requires practitioners to identify their clients where:

- any form of continuing service is to be provided, or
- dealing with an individual transaction or a series of transactions which amount to more than €13,000, or
- it is felt from the beginning that the client may be engaged in some form of Money Laundering activity.

He also states that aforementioned criteria are so broad by their natures that compel practitioners to identify all of its new clients. He further says that the CJA 1994 suffers from a small number of the identification exclusions. In consequence, this may show that the legislation was drafted only for financial institutions and large firms and fails to reflect a different type of relationship between small practitioners and their clients. According to research done by Webb (2004), the compliance with Know-Your-Customer ('KYC') rules is seen by respondents as the most time consuming part of the compliance. They also claim that this procedure does not have any effect on preventing money laundering. Lambe (2003) further argues that KYC rules with regard to auditors and accountants are unnecessary and pointless. They impose an additional and unnecessary burden on small practitioners, as the auditors and accountants know more about their clients' financial affairs than most other professionals.

A further criticism relate to the word 'suspicion', as this word is not defined by the legislation. (ICAI, 2005) Musciandaro and Filotto (2001, pg. 137) point out that difficulties relating to this word come from the fact that "*suspicious is personal and subjective and falls far short of proof based on firm evidence.*" As auditors and accountants are obliged to report suspicious activities and transactions, the lack of the



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clear definition makes the process more complicated and time consuming. Furthermore, the high subjectivity and ambiguity requires auditors to often use the services of external legal advisors in order to report even a trivial matter. (Lambe, 2003) Webb (2004, pg. 371) points out that the AML is more appropriate for large than small firms, as it requires *“a huge amount of work for very little gain”*. He also states that as the AML rules were designed by and for the large firms, small ones need a different legislation. Harvey (2004, pg. 342) adds that *“stopping money laundering is a worthwhile and worthy objective but it has implications in terms of costs and there is a need to reduce money laundering but the costs of doing this should be within reason”*. On the other hand, Clifford (2003) states that failure to report suspicions of money laundering by auditors may result in criminal penalties, such as imprisonment and/or fines.

Another practical difficulty of the AML relates to the reporting requirements under section 58 of the Criminal Justice Act 1994. This section states that it is an offence to tell (‘tip off’) the client that a report was submitted. For instance, if during a Revenue Audit the client asks why their case has been selected for audit, the auditor is not permitted to inform the client that it is a consequence of a report, which was made earlier to the Revenue. (Keegan, 2003)

In addition, the research done by Webb (2004) concludes that for small and medium – size firms the cost of compliance with AML is high. Accordingly he questions the ability of small firms to effectively deal with AML regime.

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## **Company Law**

### **Company Law and reporting duties of auditors**

In 2001, the Oireachtas decided to impose certain ‘whistle – blowing’ obligations on statutory auditors. This enhancement of auditors’ reporting duties by legislator was aimed at the protection of investors and the public interests. It is important to remark that an auditors’ primary duty to report is to shareholders. They must express their opinion whether the financial statements give a true and fair view and have been prepared in accordance with the Companies Acts. In spite of this principal duty to the shareholders, the auditors under the Companies Acts have to make certain disclosures to the Director of Corporate Enforcement if they suspect that the company or an officer or an agent has committed an indictable offence. Indictable offences are defined in the Acts as those of a more serious nature than summary ones. Therefore, they can be tried in either the District or the Circuit Court. (Scully, 2003)

Prior to the introduction of the Company Law Enforcement Act 2001 (‘CLEA’) auditors had a relatively limited duty to report wrongdoing to regulatory authorities in the public interest. Their only one ‘whistle – blowing’ obligation was to report to the Registrar of Companies within seven days where the company failed to keep proper books of account under section 202 of the Companies Act, 1990. However, they were absolved from this obligation only if they had decided that the contravention of Section 202 was minor or immaterial. (McGrath, 2003)

However, in 2001 Section 74 of the CLEA, by means of the introduction of a new subsection (5), has increased significantly the existing duties of auditors contained in Section 194 of the Companies Act, 1990. This section states:

*“Where, in the course of, and by virtue of, their carrying out an audit of the accounts of the company, information comes into the possession of the auditors of a company that leads them to form the opinion that there are reasonable grounds for believing that the company or an officer or an agent of it has committed an indictable offence under the Companies Acts, the auditors shall, forthwith after having formed it, notify that opinion to the Director and provide the Director with details of the grounds on which they have formed that opinion.” (Section 194(5))*

Thus, the auditor has become an agent of regulation that provides evidence to the ODCE, on the basis of which the Director decides whether or not to make

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investigation and/or prosecution. Currently, there are 128 indictable offences under the Companies Acts. (CLRG, 2004)

Section 194 (5) forces auditors to exercise their professional judgement in determining whether a suspected offence constitute an indictable offence and whether “*there are reasonable grounds for believing*” that an indictable offence has been committed. (ODCE, 2006) However, Scully (2003) points out that the auditors in considering whether to report an indictable offence are not required to evaluate the seriousness of an offence. He further states that all indictable offences detected by the auditor must be reported to the Director. He also says that it can be possible for an auditor to give an unqualified audit report and simultaneously report a suspected indictable offence to the Director.

Doran (2006) indicates that the auditor’s reporting obligations can put a significant strain on the relationship between an auditor and his client. He further suggests that it can be more difficult to maintain a partnership relationship if the auditor is the ‘watchdog’ or ‘whistle blower’ for the ODCE. McCarty (2006, pg. 35) states that:

*“The small company’s auditor is generally the only business advisor that the company has got. On the one hand, that adviser is giving them advice that they need to make their business prosper, to let them make the best use of the laws of the land but at the same time that adviser has to say ‘well sorry you broke that rule there. It does not matter that nobody suffered a loss as a result of that rule but I am afraid the law of the land says that I have to report you to the ODCE.”*

Keena (2002, pg. 14) also points out that auditors could explain to their clients that the law is the law and the report has to be sent off, but small companies’ directors in such situations “*would be less than human if they did not experience a subtle change in their feeling towards auditors*”. He adds that a report may irreversibly damage the relationship and trust between auditors and their clients.

A further criticism relates to the rigidity of certain parts of the CLEA. Some claim that the lack of flexibility of the CLEA is too onerous for small firms as it does not allow auditors to exercise their professional judgement. There is a great risk that this situation may put auditors on the spot when dealing with clients. McCarthy (2006, pg. 35) illustrates this by giving the following example:

*“Since the ODCE regime has come on board, a husband and wife do not have an AGM at the kitchen sink, that’s an indictable offence. They can go to jail for that.*

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*Ok, whereas if Cement Roadstone do not have an AGM, well that's more serious, and the ODCE regime now does not allow the auditor to exercise any judgement.*

### **Effectiveness of provisions**

According to annual reports revealed by the Office of the Director of Corporate Enforcement ('ODCE'), there is a significant growth in reporting by statutory auditors. In 2002, the auditors made 385 reports in comparison with 1,965 reports received by the ODCE in 2005. It represents a growth of a 410 percent over the four year period. However, the auditor reports other than annual return defaults increased only from 126 in 2002 to 211 in 2005. It represents a change of 67 percent over the same time period. The Director has also stated that there have been about 20 different types of company law offences reported to date. He has further disclosed that the four most popular indictable offences, which account for 98 percent of all reports, are:

- Annual return defaults (78 percent)
- Excessive directors' loans (13 percent)
- Non – holding of EGMs (4 percent) and
- Failure to keep proper books (3 percent).

However, the Director has also pointed out that the auditors, from September 1<sup>st</sup> 2005, are no longer obliged to report to the Office of the Director of Corporate Enforcement, if officers fail to file on time annual returns with the Registrar of Companies.

The Director has further indicated that about 64 percent of all received reports come from 'Big Four'. He has stated that there is a relatively low rate of reporting by small practitioners in comparison with the larger audit practices. In addition, he has also stated that a great majority of reports made by small audit practices refer solely to annual return defaults. (ODCE, 2003; 2005; 2007)

This low level of reporting by small audit firms to statutory authorities raises questions of whether these auditors are aware of their obligations (RGA, 2000) or whether they protect their relationships with the clients (McCarthy, 2006; Keena, 2002) or they are too busy to report? (O'Rourke, 2005)

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## ***Tax Laws***

### **Tax Laws and reporting duties of auditors**

According to International Standards on Auditing, statutory auditors are required to consider all material amounts while they form an opinion on the financial statements as a whole. As taxation liabilities of most companies represent a significant factor of their financial positions, auditors are obliged to review them and assess what impact they have on a true and fair view of the financial statements. (ISA 250, 2005; O'Toole, 2000)

Section 1079 of the Taxes Consolidation Act, 1997 provides that where an auditor becomes aware of material tax evasion or non – compliance during the course of his work, he is required to report this matter to the company and request the company to rectify the situation or to report the offence to the Revenue Commissioners within six months. If the company fails to do so the auditor is obliged to resign from the audit and notify both the Company Registration Office and the Revenue Commissioners. The assessment what constitutes a material tax evasion is left to auditors' professional judgement. (Revenue, 2006)

### **Effectiveness of provisions**

To date no reports have been received by the Revenue Commissioners under Section 1079 TCA 97. However, it is important to remark that the Revenue Commissioners have uncovered many tax irregularities in the financial affairs of companies which have been audited by external auditors. This raises the question of whether or not it was an intentional non – compliance with Section 1079 TCA 97. (O'Toole, 2000)

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## ***International Standards on Auditing***

### **Development of International Standards on Auditing**

The foundation for an international set of standards on auditing started in 1969 with the publication of a number of reports focusing on international auditing by the Accountants International Study Group. In the late 1970s, the Council of International Federation of Accountants ('IFAC') formed the International Auditing Practices Committee ('IAPC'). In 1991, the IAPC issued the first ever International Standard on Auditing ('ISA'). However, the International Standards on Auditing as are currently in operation were implemented in December 2004 and they apply to all statutory audits carrying out in the Republic of Ireland. (Pierce, 2005)

The implementation of ISAs was carried out in accordance with Article 26 of the Statutory Audit Directive. This Article states that all statutory audits must be carried out in line with ISAs adopted by the European Commission. The main aim of this Directive is to ensure consistent high quality statutory audits across Europe. (FEE, 2006)

Furthermore, to ensure the high level of flexibility of ISAs, the International Auditing and Assurance Board ('IAASB') takes the view that all ISAs should be based on principles not rules. The IAASB assumes that this gives ISAs the flexibility needed to be equally applicable to audits of all entities. In addition, the IAASB states that the application of principle-based standards has in its view to meet the needs of SMEs without the need for separate standards. The IAASB also states that it recognises that an audit of a small entity differs significantly from the audit of a large one with respect to documentation and complexity. However, it takes the view that 'an audit is an audit' and it objects to exempt SMEs from certain requirements of ISAs. (IFAC, 2005; Tyl, 2005)

In spite of the IAASB's standpoint, the Auditing Practice Board ('APB'), after receiving over 500 letters, has decided to issue the second set of Ethical Standards ('APB Ethical Standards Provisions Available for Small Entities') designed for the needs of small firms. Thus, the APB has admitted that the full version of Ethical Standards can be too onerous and difficult for certain audit firms to apply when auditing SMEs. "*Certain dispensations are appropriate to facilitate the cost effective audit of the financial statements of Small Entities.*" (APB, 2005, pg.101). Those

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alternative provisions apply in respect of threats arising from economic dependence (regularly exceed 10 percent of the annual fee income but not exceed 15 percent) as well as self – review threats arising from the provision of tax or accounting services. Furthermore, the APB (2005) has given auditors of small firms the option of taking advantage of exemptions from certain requirements related to management threat (non – audit services), advocacy treat (tax services) and partners joining an audit client.

## **Evaluation of ISAs for small audit practices**

Kellas claims that all auditors irrespective of whether they provide services for large or small firms should use the same universal set of International Standards on Auditing. Supporters of this concept do not take under consideration any differences among various firms in terms of sizes, legal forms, ownership or management structures and the nature of activities. This model of one set of ISAs is predominantly represented by auditing standard setters. The Chairman of IAASB stated:

*“an audit is an audit, whether for large or small entities; the public expects the same level of assurance, and they are right to do so.”* He further added that: *‘if we took the road of writing separate standards for smaller entities, we would inevitably find ourselves writing standards that achieved different levels of assurance, and this would be against the public interest’.* (Kellas, 2005, p 4)

Accordingly, proponents of this concept take the view that users expect a consistent, reasonable level of assurance from an unqualified audit opinion that the financial statements have been properly prepared. Therefore all audits must be carried out according to the same standards for any size of entity. In addition, they state that readers cannot be expected to have to consider how the auditor has arrived at his/her conclusion. (Kellas, 2005)

Furthermore, the proponents of a universal set of ISAs also claim that one set of auditing standards is less likely to cause confusion in the market as to what an ‘audit’ is. They further point out that having one set of ISAs will help maintain the quality of audits of SMEs. (Trotman, 2006).

On the other hand, the opponents of one universal set of ISAs argue that ISAs have been primarily designed for large firms and accordingly they are not appropriate for the audits of SMEs. They argue that ISAs in the current shape introduce an additional burden for small and medium audit practices (‘SMPs’). (FEE, 2006)

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Clifford (2006) further argues that they cause unnecessary red tape to small audits. He indicates that this paperwork drives needless, additional costs, which are passed and absorbed by clients. In addition, he points out that the ISAs require auditors to have a more formal knowledge of the client's business and its risk, including the risk of fraud. He remarks that in the past, it was the responsibility of the directors to detect fraud but currently an auditor has to think like a fraudster and actively look for it. He says:

*"If you were auditing a garage, you just had to understand how that business worked. Now you have to understand the business of all the garages in town, including their risks and profit margins. This is appropriate for Bank of Ireland, but for small companies, it trebles the amount of planning work that has to be done before an audit even takes place."* (Clifford, 2006, pg.6)

In addition, the respondents of an international survey done by Wong (2004) suggest that the focus of ISAs has changed from audits of financial statements of companies of all sizes to the audits of financial statements of large, often multinational ones. They think that ISAs are more suited to the users of financial statements of large companies than SMEs. They also think that ISAs are becoming more difficult to apply to the audits of SMEs. In addition, they consider documentation requirements of ISAs as one of the most onerous obligations imposed on them. Furthermore, most of the respondents also expressed their concerns about the length and complexity of the standards. They claim that ISAs are extremely time consuming exercise in relation to relatively simple audits performed by them.



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# **Chapter 3**

## Research Methodology

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## ***Introduction***

This chapter identifies, explains and justifies the methodology adopted during this study. Furthermore, this chapter outlines the limitations encountered during the research.

## ***Research Philosophy***

A research philosophy depends on the way the researcher thinks about the development of knowledge. The way the researcher thinks about the development of knowledge has an influence on the way the researcher goes about doing the research. The literature is dominated mainly by three research paradigms, namely positivism, interpretivism and realism. (Saunders et al., 2003)

### **Positivism**

Saunders et al., (2003) point out that if the research philosophy reflects the principles of positivism then the researcher should adopt the philosophical stance of the natural scientist. Positivism includes:

*“working with an observable social reality and that the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists” (Remenyi et al., 1998)*

### **Strengths of positivist research**

- it is developed to achieve specific theoretical goals
- it is economical both in terms of time and for sampling large numbers
- it is easily analysed and clearly demonstrates existing or emerging patterns and trends
- it gives the researcher control in measurement using validity and reliability testing.

[Easterby – Smith et al, 2002]

### **Weaknesses of Positivist Research**

- it is rigid and inflexible and once data gathering has commenced it is difficult to change it
- it is vague in terms of understanding the social processes behind the data

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- positivist research, while useful in assisting decision making is not holistic enough to interpret social actions and therefore is limited when used in policy making

[Easterby-Smith et al, 2002]

### **Interpretivism**

Interpretivism (which is called also Phenomenology) assumes that reality is socially constructed rather than objectively determined. It is more focused on understanding meanings rather than measuring facts. Each situation is seen as unique and its meaning is a function of the circumstances and the individuals involved. [Gill and Johnson, 1997] According to Hussey and Hussey (1997), this philosophy assumes that the social world is continually changing and that the researcher and the research take active part in it. It also has the following characteristics:

- it tends to produce qualitative data
- it uses small samples
- data is rich and subjective
- reliability is low
- it is concerned with generating theories
- validity is high

[Saunders et al, 2003]

### **Strengths of interpretivism research**

- it takes into account changing business environment
- it is flexible and results in many different answers
- it helps in the understanding of why and how
- it is good at understanding social processes

### **Weaknesses of interpretivism research**

- data collection and analysis can be time consuming
- it can be perceived as less credible by ‘non-researchers’
- it can be difficult to make conclusions as exact patterns or trends may not emerge
- observer bias can easily occur

[Saunders et al, 2003]

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## **Justification of choice**

The choice of research philosophy depends on the required outcome of the study. I have decided to use both interpretivism and positivism philosophies. On the one hand I used interpretivism, as my research involves two semi – structured interviews. Consequently, I have to interpret the interviewees’ opinions in the analysis and findings sections. The advantage of using the interpretivism philosophy is that it helps in the understanding of why and how data is collected. The major drawback of this philosophy is that findings are open to bias. On the other hand, I used positivism philosophy via the use of questionnaires. Questionnaires allow the researcher to interpret findings in a more quantifiable manner, because of the structured nature of the survey. This approach enables researcher to become a more objective analyst.

## ***Research focus***

Saunders et al., (2003) state that there are three classifications that can be used in the research i.e. exploratory, explanatory and descriptive.

### **Exploratory**

Robson (2002) points out that exploratory studies are a valuable means of finding out “*what is happening; to seek new insights; to ask questions and to assess phenomena in a new light*”. Saunders at al., (2003) claim that the main advantage of the exploratory approach is its flexibility and its ability to adapt to changes. Consequently, this approach allows the researcher to change the direction of the research as a result of new data or insights. He further adds that the exploratory approach can be particularly useful if researchers wish to clarify their understanding of a problem.

### **Explanatory**

According to Saunders, et al. (2003), explanatory studies “*examine casual relationship between variables*”. They further state that the emphasis of explanatory study is on studying a situation or problem in order to explain the relationship between variables.

### **Descriptive**

Robson (2002) points out that the purpose of the descriptive study is to “*portray an accurate profile of persons, events or situations*”. It further states that it can be used

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as an extension or a forerunner to exploratory research. Sekaran (2000) indicates the following advantages of this type of research:

- it assists in the decision making process
- it provides a basis for further investigation/research
- it develops an understanding of the group

### **Justification of research choice**

The research undertaken can be classified as both exploratory and descriptive in nature. The descriptive element of this research involves an analysis of the development of the regulations affecting small audit practitioners. However, the exploratory part comprises the opinions of small audit firms, the Irish Auditing and Accountancy Authority and ACCA. This part of this research was conducted via semi-structured interviews and questionnaires. One of the main advantages of using exploratory research is flexibility and adaptability to changes. (Saunders et al., 2003).

## ***Data collection***

There are many data collection methods available to the researcher. The type of method used for data collection depends mainly on the objectives of the research. This chapter illustrates the advantages and disadvantages of the main methods.

### **Interviews**

An interview is a purposeful discussion between two or more people (Kahn and Cannell, 1957). There are three main types of interviews: unstructured, semi-structured and structured. The above interviews can further be classified into: face-to-face or phone interview.

#### **Unstructured interviews**

These types of interviews are often referred to as in-depth interviews. Issues and topics for discussion are open and as a result of this they allow the interviewee to talk freely. Although unstructured interviews have no predetermined questions, the researcher must have a clear idea of what aspects that they want to explore. (Saunders et al., 2003)

#### **Semi – structured interviews**

Semi – structured interviews involve the researcher having a list of general questions for discussion. However, this guidance with questions can be changed from interview

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to interview, for example depending on answers. Furthermore, the order and number of questions can also be changed depending on the flow of discussion.

### **Structured interviews**

Structured interviews use a pre-determined and standardised set of questions. The interviewer reads out each question and then records responses on a standardised schedule. In this type of interview, there is a little room for interaction between interviewer and interviewee. (Saunders, et al., 2003)

### **Voice recording interviews**

Saunders et al., (2003) claim that there is a need to record an interview as soon as possible after its occurrence in order to control and reduce bias as well as to generate reliable data for analysis. One of the methods of recording an interview is by using a voice recorder. The main pros and cons of voice-recording an interview are presented in table I.

**Table I**

| <b>Advantages</b>   | <b>Disadvantages</b>  |
|---|---|
| <ul style="list-style-type: none"><li>• allows the interviewer to concentrate on questioning and listening</li></ul>  | <ul style="list-style-type: none"><li>• may adversely affect the relationship between the interviewee and the interviewer</li></ul> |
| <ul style="list-style-type: none"><li>• allows questions formulated in an interview to be accurately recorded for use in later interviews, if appropriate</li></ul> | <ul style="list-style-type: none"><li>• may inhibit some interviewee responses and therefore reduce reliability</li></ul>           |
| <ul style="list-style-type: none"><li>• can re-listen to the interview</li></ul>  | <ul style="list-style-type: none"><li>• possible technical problems</li></ul>   |
| <ul style="list-style-type: none"><li>• provides an accurate and unbiased record</li></ul>  | <ul style="list-style-type: none"><li>• disruption when changing tapes</li></ul>  |
| <ul style="list-style-type: none"><li>• allows for direct quoting</li></ul>   | <ul style="list-style-type: none"><li>• transcribing tapes is time consuming</li></ul>  |
| <ul style="list-style-type: none"><li>• it is a permanent record which can be used by others</li></ul>  |   |

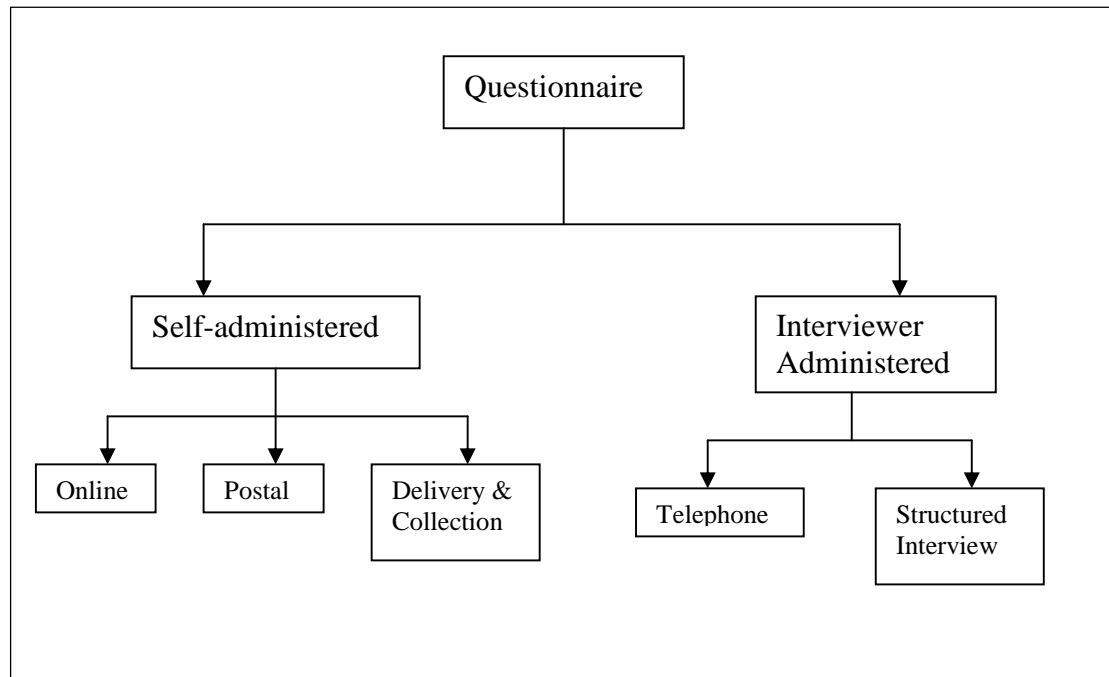
[Adopted from Saunders et al., (2003); Research Methods for Business Students, pp. 264]

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## Questionnaire

Saunders et al., (2003) refer to a questionnaire as a general term to include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order. There are different types of questionnaire as shown in table II.

**Table II**



[Adopted from Saunders et al., (2003); Research Methods for Business Students, pp. 282]

According to Saunders et al., (2003), the choice of a questionnaire is influenced by a number of factors related to the research question(s) and objectives. These include:

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

Malhotra, N.K (1999) points out that a questionnaire has three main objectives. First of all, the questionnaire must translate the information needed into a set of specific questions that the respondent will answer. Secondly, in designing the questionnaire,

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the researcher should aim to minimise respondent fatigue and boredom. Finally, the questionnaire should minimise response error.

## ***Constructing an instrument for data collection***

As the most common data collection methods have been discussed above, the researcher must choose the data collection methods most suited to the research questions and objectives.

### **Interview design and process**

A series of two semi-structured interviews were conducted with selected individuals. The reason why the semi structured interviews were chosen was the researcher's belief that they would give more flexibility and would allow the researcher to ask or omit questions on the spot depending on the interviewee's answers and reaction. (Saunders, et al., 2003)

All the interviewees were selected by taking into account the knowledge, scope of duties and position of interviewees. The main purpose of these interviews was to seek the opinions of the regulating bodies on the research questions and objectives. All the questions used during interviews were open ended to enable the researcher to seek insights and probe questions. Furthermore, all the interviews were taped recorded and then the transcripts were carefully analysed. All interview transcripts can be found in Appendix I. It should be noted that all interviewees were asked if they required a copy of the questions to be sent to them before the interview. Consequently, the interview guidance with questions was sent to all interviewees one week before conducting interviews. The purpose of sending the interview guidance before interviews was to allow the interviewees to get better prepared for interviews.

The first interview was conducted with Mr Ian Drennan, the chief executive of the Irish Auditing and Accounting Supervisory Authority. The interview took place on Monday 28<sup>th</sup> day of May, 2007 at 12,30 pm in Sligo Park Hotel. The interview lasted approximately 40 minutes.

The second interviewee was conducted with Mr Aidan Clifford, the person in charge of ACCA's technical advisory department. This interview was carried out over the phone, because of Mr Clifford's high workload. In this situation, the phone interview turned out to be more flexible and cost effective. This interview was



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performed on Friday 1<sup>st</sup> day of June, 2007 at 3 pm. The interview lasted approximately 25 minutes.

### **Timing**

All interviews were conducted by appointment at a pre-determined time, date and place. Furthermore, the interviews were carried out after the questionnaires were finished and analysed. This order enabled the researcher to construct more suitable and precise interview questions.

### **Questionnaire design**

The copy of the questionnaire can be found in Appendix II, along with a copy of the covering letter (Appendix III). The goal of the covering letter was to explain the purpose of the research and state who the researcher is. The researcher decided to use an online questionnaire, which was distributed directly to respondents via email. The main advantages of online questionnaires are low cost, speed of response, ease of processing collected data and assurance that the right person has responded. The most time consuming and difficult activity at design stage was the creation of the website interface along with the database. The main objectives of the interface were to attract the attention of the respondents and enable them to fill out the questionnaire smoothly and logically. The main objective of the database was to collect data and group them in a way which was easy to analyse. When designing questions, Saunders et al (2003) point out that questions can come from the following sources:

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

The researcher decided to develop and design his own questions, as the research area has not been investigated in Ireland before. All the questions were designed on the basis of the literature review findings. Furthermore, each question was designed in such a way to eliminate any possible ambiguity. Once the questionnaire had been designed, its layout and content was validated by Paul McDevitt and friends. In addition, a pilot test was emailed to twenty small audit practices. Usage of the pilot test enabled the researcher to estimate the response rate and test questions for mistakes. Furthermore, the researcher decided to use only closed questions in the

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questionnaire. The main reason behind it was to maximise the response rate by making the questionnaire as quick as possible to answer.

### **Research population**

Once it was decided to use a questionnaire as a tool, a sampling frame had to be decided upon. Due to time and technology constraints, it was only possible to survey 160 small audit practices. The main technology constraint was the fact that certain a percentage of small audit practitioners do not have email addresses. In order to get a list of the chartered accounting practices in Ireland, the Institute of Chartered Accountants in Ireland (ICAI) was contacted. The ICAI forwarded a full list of their members in CD-Rom format. The researcher then selected a random sample of auditors from each county in Ireland to ensure all counties within Ireland were surveyed. With regard to Association of Chartered Certified Accountants (ACCA), a full list of their members was found at [www.accaglobal.com](http://www.accaglobal.com). Furthermore, a satisfactory response rate of 64 percent was achieved in comparison with an average expected rate of 30 percent stated by Saunders et al., (2003).

### ***Ethical Concerns***

The researcher conducted all primary research with professional integrity and strict confidentiality. With regard to the interviews, verbal permissions to record were obtained before interviews. With regard to online the questionnaire, a confidentiality statement was placed on each questionnaire giving the respondents full anonymity.

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## **Chapter 4**

### **Data Analysis and Findings**

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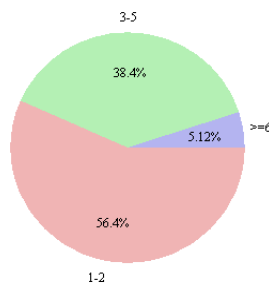
## ***Introduction***

This chapter will study and analyse the data collected during the primary research. This will involve an examination of the questionnaire responses in order to determine whether small practitioners are overburdened by regulations and how they adapt to the changing regulatory framework. Furthermore, this chapter will involve a review of the transcripts of the interviews with the Irish Auditing and Accountancy Authority and the Association of Chartered Certified Accountants (ACCA) in order to ascertain their views on the aforementioned issues.

## ***Demographic details***

The questionnaire was sent to 160 small audit practices across Ireland. 94.8 percent of those who replied in this research met the criteria of small audit practice (see figure 1). As per the definition established in Chapter I of this thesis, the small audit practice consists of five or fewer partners.

**Figure 1: Size of the practice by number of partners**



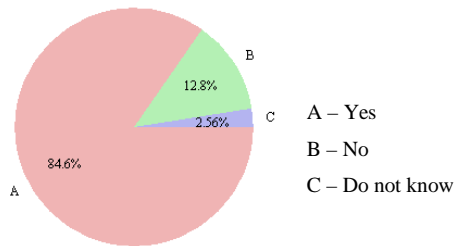
The researcher received 102 responses in total, which gave an average response rate of 64 percent. Furthermore, the researcher obtained a profile of the characteristics of the respondents stating that 90 out of 102 of them (88 percent) were working as partners. The remaining 12 respondents did not reveal their positions in practices. It is worth noting that the researcher's goal was to target people who were either senior managers or partners.

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## ***Burden of regulations affecting small auditors***

When the researcher asked the respondents to state whether they feel over-burdened by regulations, the vast majority of respondents (84.6 percent) replied positively. However, 12.8 percent of respondents were of opposite opinion. Interestingly, 2.6 percent of respondents kept a neutral stance and did not express any opinion on this issue (see figure 2).

**Figure 2: Do you feel over-burdened by regulations?**



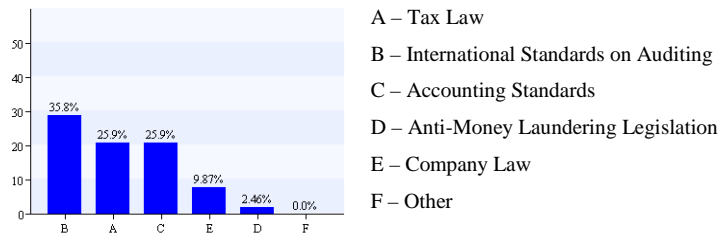
With regard to interviewees, both of them agreed that small audit practitioners can feel overburdened by regulations. Mr Drennan stated: *“I think it’s hard not to have sympathy with the small practitioners [...]”*. Then he added: *“Standards are becoming more complex, you have ethical standards being introduced by the APB, increasing legislation, and you got new reporting obligations on auditors. In a small organisation where you are trying to concentrate on doing the work and getting the fees in and you don’t have the resources to invest in the same level of training as large firms, clearly that puts pressure on small firms”*. A similar view was expressed by Mr Clifford, who said: *“the amount of paper work that goes through a practice is just unbelievable”*. He further said: *“there is way too much red tape [...], many accountants find that they can’t recover the cost they incurred in just keeping people compliant.”* He further also added: *“[...] most of the paperwork is to keep various government departments happy”*.

In order to develop the better understanding of the notion of ‘over-burden by regulation’, the practitioners were asked to indicate the most difficult/problematic areas in practice as well as to comment on potential proposals aimed at easing the burden.

With regard to difficult/problematic areas, over 35 percent of respondents placed the International Standards on Auditing first. The tax law and accounting standards

were pointed as second by nearly 26 percent of respondents. Company law and the anti-money laundering legislation were placed as fourth and fifth respectively (see figure 3).

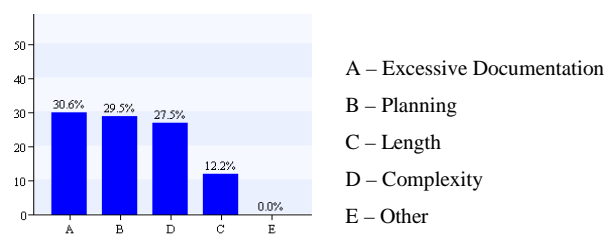
**Figure 3: Can you specify which area is the most difficult/problematic for you?**



The respondents were further asked for the reasons why the regulation is problematic for them.

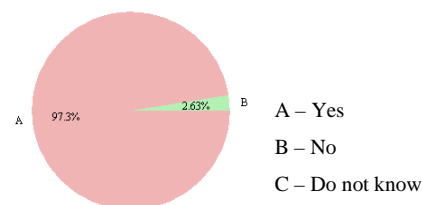
With regard to the International Standards on Auditing, small practitioners stated that documentation requirements are too excessive and for this reason they found it as the most onerous task with over 30 percent of responses. Planning and complexity were placed second and third most onerous with nearly 30 and 28 percent responses respectively. Finally, slightly over 12 percent of respondents have seen the length of standards as a fourth onerous issue relating to International Standards on Auditing (see figure 4).

**Figure 4: Please specify, what elements of ISAs are the most onerous for you?**



Furthermore, the respondents were asked to express their view on whether or not the separate set of ISAs should be implemented. The vast majority of respondents (97.3 percent) stated unanimously that there is a need for a separate set of standards (see figure 5).

**Figure 5: Do you think that small practices should have a separate set of ISAs?**



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As a result of the aforementioned results, two interviewees were asked the questions about the suitability of ISAs for small audit practices and the potential ways to mitigate the burden.

Mr Clifford admitted that *“the ISAs have been written for very large companies and that’s why they are very difficult to apply to very small companies”*. He also added that *“they have certainly made auditing much more expensive”* and that *“one set of standards is probably not appropriate, but an audit is an audit”*. He further said that: *“it is unlikely that there is going to be a separate set of auditing standards”*.

The second interviewee, Mr Drennan, agreed on the above point with Mr Clifford and pointed out that there is a strong belief at the APB’s meetings that an audit is an audit. However, Mr Drennan expressed his limited sympathy for small practitioners in relation to documentation and planning requirements. He also said that the reason why standard setters place emphasis on documentation was because the audit work was not properly evidenced. He further said that regulators always take a pragmatic view and *“if something has not been documented at a minimum that is a deficiency from regulators’ perspective”*. He also affirmed that *“you simply have to have enough documentation to substantiate what you have done and the conclusions that you have drawn from it on the basis of those conclusions and I don’t think that’s unreasonable.”* In relation to the issue of excessive planning, he stated *“I don’t think that there is necessarily anything in International Standards that requires an auditor of a small company to do a whole lot more than they already did. You were always required to know the business before you did the audit. You don’t know the business you can’t do an audit properly”*. In terms of complexity and the length of standards he agreed that both issues can be problematic or difficult for some practitioners. When asked if IAASA can do something to mitigate this burden, he answered that unfortunately IAASA can do very little about the aforementioned issues, as ISAs are set up internationally. He also stated that the European Commission put some measures to mitigate the small practitioners’ burden, namely by increasing the statutory audit exemption threshold.

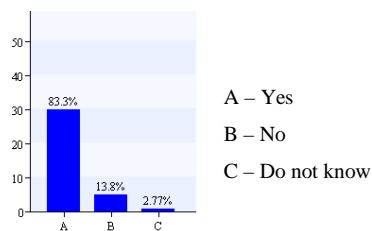
In addition, Mr Drennan agreed with Mr Clifford that an introduction of a separate set of standards is very less likely. He noted that such an implementation *“would represent dilution of the audit quality”*. He also added that *“most people would take the view would rather no audit than a substandard audit”*. He also further

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stated that “the IAASB is so tied up at the moment with clarity that this isn’t even on their agenda nor do I see it being it in time in the future”.

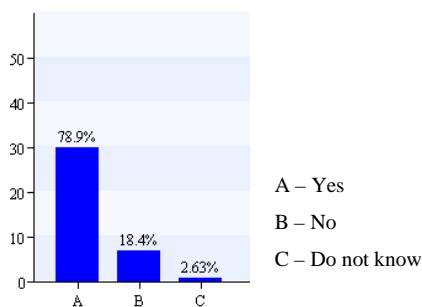
With regard to company law, practitioners were asked about their view on the onus of the company law reporting obligations. The findings revealed that over 83 percent respondents consider them as too onerous. The opposite opinion was expressed only by 13.8 percent of them (see figure 6).

**Figure 6: Do you think that the company law reporting obligations are too onerous?**



Furthermore, respondents were asked to determine whether the company law reporting obligations are too rigid and whether they allow professional judgement to be exercised. It is worth noting that nearly 80 percent of respondents found company law reporting obligations too rigid and they also think that they do not allow professional judgement to be exercised. The opposite point of view was represented only by 18 percent of respondents (see figure 7).

**Figure 7: Do you think that the company law reporting obligations are too rigid and do not allow you to exercise professional judgement?**

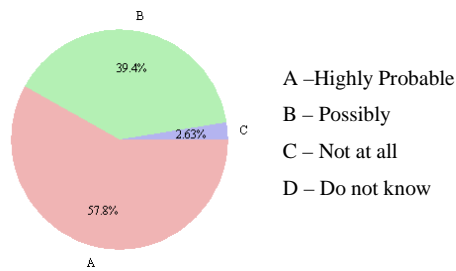


Then, the respondents were asked about their opinion on a possible impact of reporting of an indictable offence on their relationship with clients. 97.2 percent of respondents stated that it is either highly probable or possible that reporting of an indictable offence would damage the relationship with a client (see figure 8). These results seem to correspond with the findings of McCarthy (2006) and Keena (2002), who claim that a report of an indictable offence can damage irreversibly the relationship and trust between auditors and their clients.



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**Figure 8: Do you think that reporting of an indictable offence would damage your relationship with a client?**



When asked to comment on indictable offences and de minimis provisions, Mr Drennan said that *“the Company Law Review Group is currently working on a Consolidated Companies Bill, [...] and one of the things that the Company Law Review Group has done in that bill is to reclassify offences so instead of the old summary or indictable, you will now have category 1, 2, 3 and 4 of offences, [...] only category 3 and 4 will have to be reported, [...] the less serious offences would be now category 1 and 2 and they would be no longer required to be reported”*. He is of the opinion that the reclassification will probably address this problem. Furthermore, he admitted that currently *“it seems illogical that people would be reporting having missed an AGM notice deadline, [...] that’s not really that serious offence and it’s not up there with fraudulent trading”*. In addition, he also pointed that one of the most unproductive indictable offences, namely late annual returns, was removed recently, thus it is no longer required to be reported. He thinks that this move would reduce the burden concerning the reporting of indictable offences. This fact seems to be confirmed by the questionnaire done by the researcher and also corresponds with data obtained from the ODCE. According to these findings, nearly 70 percent of respondents, who ever reported, stated that their reports were linked to annual return defaults. (see Figure 16)

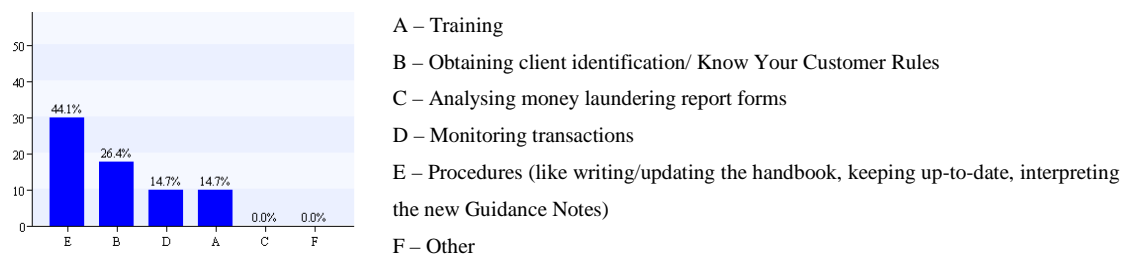
Mr Clifford was also asked to comment on the aforementioned issues. In his opinion, *“indictable offences are not as big an issue as money laundering, [because] they are black or white. Either you have an illegal loan or you don’t or you have kept proper books of accounts or you haven’t”*. He is of the opinion that *“de minimis is not relevant in terms of indictable offences”*. This statement seems to confirm the findings of the literature review chapter, which indicates that certain parts of the CLEA lack flexibility and they do not allow one to exercise professional judgment. Similarly, Mr

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Drennan is of the opinion that the removal of annual return defaults from the list of indictable offences would help to reduce the burden of indictable offences.

With regard to Anti-money laundering regulations, practitioners were asked to identify the most time consuming areas of compliance. Slightly over 44 percent of respondents stated that dealing with the AML procedures is the most time consuming activity. Furthermore, over 26 percent of respondents placed ‘Know-Your-Customer Rules’ second as the most time consuming activities. In addition, almost 15 percent indicated both monitoring transactions and training as the third most time consuming activities (see figure 9). These findings correspond with the results of the research obtained by Webb (2004). In his research, ‘Know-Your-Customer Rules’ were seen as the most time consuming part of the compliance.

**Figure 9: Please specify, which elements of compliance with the Anti-Money Laundering Legislation are the most time consuming for you?**



When asked to comment on the burden of money laundering regulations, Mr Clifford pointed out that these regulations are very useful and also needed, because they force practices to report the crime. However, he also noted that some money laundering provisions are still half-baked. When asked to develop this point, he said “*in theory stealing a mars bar from a local shop is money laundering, which makes it rather silly that you have to report every single transaction, [he continued] an unreconciled bank balance by a couple of euro is reportable*”.

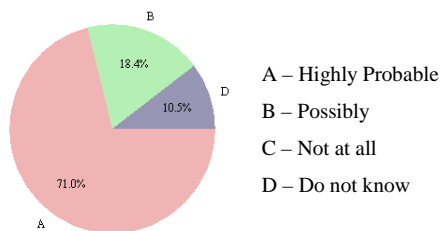
When the researcher asked about ways to mitigate this burden, i.e. an implementation of de minimis provisions, Mr Clifford said “*there is a lot of call for de minimis, one will probably be introduced*”. When asked if the introduction of de minimis provisions would be seen as a breach of the EU directive on money laundering. Mr Clifford responded that “*the directive is very broad and how it is implemented in each state is up to the member state*”. He further added that “*in the*

UK you can report all the minor stuff in a very summary way and the major stuff in a larger report”.

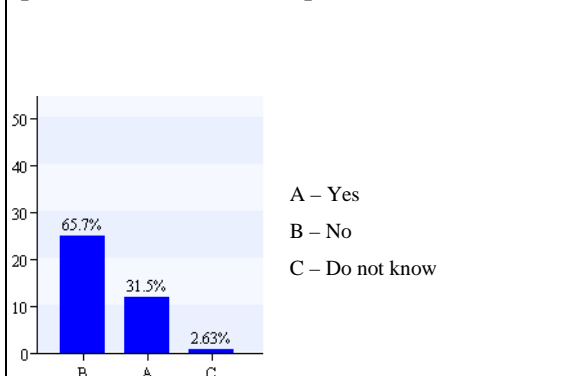
When asked to comment on the aforementioned issue, Mr Drennan declined to comment on the basis that he is not sufficiently detailed with the EU anti-money laundering directive.

With regard to de minimis provisions, the vast majority of respondents (65.7 percent) stated that they are against exempting the small audit practices from the AML. However, slightly over 31.5 percent of respondents support the idea of exemption (see figure 11). These findings surprised the researcher, because they do not seem to be consistent with the results from figure 10, they also contradict the opinion expressed by Mr Clifford as well as they do not correspond fully with conclusions reached by Webb (2004). On the basis of results received from figure 10, namely a high risk of damaging their relationships with clients, the researcher had a valid expectation that small practitioners would support the idea of introduction of de minimis provisions. Furthermore, in accordance with data from figure 12, 66.6 percent of respondents who supported the idea of de minimis provisions in figure 11 stated that the limit should be at least €10,000. The rest of them (33 percent) are of the opinion that the limit should be between €5,000 and €10,000.

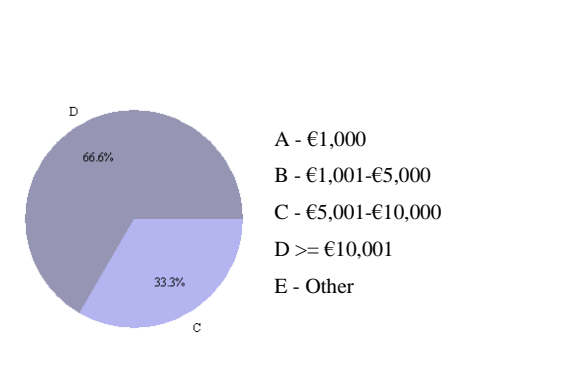
**Figure 10: Do you think that reporting of the Money Laundering offence would damage your relationship with a client?**



**Figure 11: Do you think that small audit practices should be exempted from the AML?**



**Figure 12: Please state, what should be the limit?**



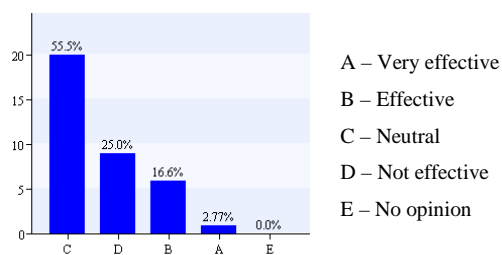
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## ***Assessment of the level of compliance with regulations by small audit firms***

The next objective of this research was to assess the level of compliance with regulations by small audit practitioners.

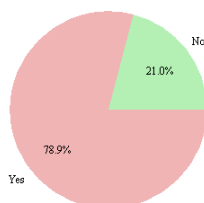
With regard to the anti-money laundering legislation, respondents were asked to express their opinion on its effectiveness for small practices. Surprisingly, over 55 percent of them took a neutral stance towards this question. The reason for the surprise was that the researcher believed that respondents would express their views more clearly and approve or disapprove of this piece of legislation. In addition, on the basis of literature review the researcher had reason to believe that respondents would criticise the anti-money laundering provisions as there is a relatively very low reporting regime in Ireland. Only 25 percent of respondents claim that aforementioned provisions are not effective for small practices. On the other hand, a diametrically different opinion was expressed by 19.6 percent of respondents, including 3 percent who said that it is very effective (see figure 13).

**Figure 13: Do you think that the Anti-Money Laundering regulations are effective for small practices?**



When the researcher asked respondents whether they have somebody acting as a Reporting Officer, nearly 79 percent replied positively (see figure 14). This result did surprise the researcher, who expected on the basis of literature review that most of small practices would not have such a designated person as their resources are limited.

**Figure 14: Do you have a Reporting Officer, who is responsible for the firm’s compliance with the reporting regime?**



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As stated in figure 10, over 89 percent of respondents admitted that a potential reporting of money laundering offence would probably highly damage or possibly damage their relationship with clients. This result surprised the researcher who assumed on the basis of the literature review that most of respondents would indicate a 'Not at all' answer. It may suggest that respondents do not place trust in 'tipping off' provisions that were designed inter alia to guarantee the anonymity of the person reporting a potential criminal activity. The researcher has a reason to believe that the aforementioned fact may have an impact on the very low reporting of money laundering offences in Ireland.

When asked about compliance with anti-money laundering provisions, Mr Clifford answered "*there is probably a lot of non-compliance*". However, he did not agree with the researcher's respondents on the point that reporting of money laundering would damage the relationship with clients. He is of the opinion that a report of money laundering "*is quite anonymous*" and "*it tends not to be discovered by the client*".

When asked to comment on compliance with anti-money laundering, Mr Drennan stated that every legislation should be "*workable and it should be broadly comparable*". He further said that in case of anti-money laundering legislation the hands of the Irish Government are tied by European Directives and as a result of this the Irish legislator cannot pass the Acts that would reduce this unnecessary burden and increase compliance. However, this statement is in stark contrast with the opinion expressed by Mr Clifford who stated that "*the directive is very broad and how it is implemented in each state is up to the member state*".

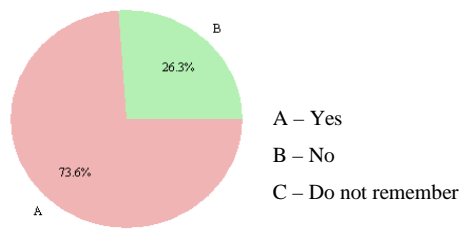
Furthermore, Mr Drennan added that "*any auditor is going to have regard to his reputation, [and he considers] the impact that it might have on his business generally and no professional will likely send a money laundering report to the relevant authorities, without having very serious grounds for doing so; this leaves it open to litigation, reputational damage*".

With regard to company law, the majority of respondents (73.6 percent) stated that they have at least once reported an indictable offence. However, 26 percent of them have not done this yet (see figure 15). These findings correspond with results obtained from ODCE's annual reports, which show an increasing tendency in reporting of indictable offences. However, they also emphasise that this growing

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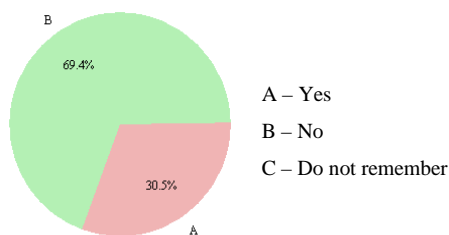
number of reports represented mainly one category of offences, namely annual return defaults.

**Figure 15: Have you ever reported an indictable offence?**



To validate the findings of the literature review chapter, the researcher asked respondents to specify whether their reports relate to annual return defaults. Not surprisingly, nearly 70 percent of respondents stated that their reports were about annual return defaults. Only slightly over 30 percent of respondents stated that their reports were of a different nature (see figure 16).

**Figure 16: Have you ever reported an indictable offence except from annual return defaults?**



The respondents were also asked about their opinion on the impact of the report on their relationship with clients. As stated in figure 8, 97 percent of respondents stated that it is either highly probable or possible that reporting of an indictable offence would damage the relationship with clients. This result corresponds with the findings of the literature review, which say that auditors, in accordance with company law are not obliged to follow ‘tipping off’ provisions. The above fact may have an impact on the reporting regime in Ireland.

When asked to comment on the aforementioned issue, Mr Drennan admitted that the vast majority of reports in the Office of the Director of Corporate Enforcement related to the failure to file an annual report to the company’s office. However, he also said that it “*was pretty much an unproductive use of everybody’s time*”. He further added that “*that matter has been dealt with and has been exempted so it is no longer required to report*”.

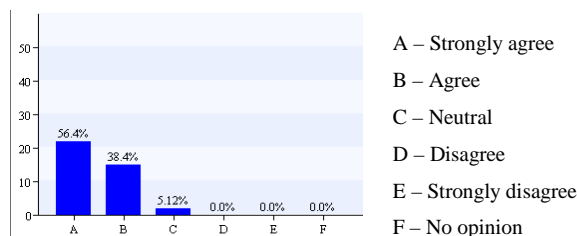
Furthermore, Mr Drennan is of the opinion that “*the volume of reporting is going up*” and he thinks that the main reason why is going up is that “*legislation was commenced and continues to bed in, practitioners become more aware of the obligation*”. However, he also states that “*only about 9 or 10 different types of offences are reported out of 150*”. He further explains that there is a variety of reasons why the rest are not reported. He states that “*first of all, some of them will never be reported*”, because they relate to the liquidators. Secondly, some of them are not reported, because of “*a very high burden of proof*” like in the case of fraudulent trading. Thirdly, he points out that “*the people who draft these things are not always as familiar as they might be with what an audit is, what is involved and the scope of an audit*”. Finally, he admits that “*there are auditors who spot [an indictable offence and decide not to report, because] it’s going to damage my relationship with my client or it’s not really a serious issue or they don’t know they are supposed to report these things*”.

### **Assessment of the level of adaptability of small audit practices to changing regulatory regime**

The next objective of this research is to investigate the level of adaptability of small audit firms to changing regulatory framework.

Firstly, respondents were asked to determine whether or not keeping up to date with the constantly changing regulatory regime is the biggest challenge for them. The vast majority of them (94.8 percent) either strongly agreed or agreed with the above statement. The remaining 5 percent expressed a neutral stance (see figure 17).

**Figure 17: Do you agree that keeping up-to-date is the biggest challenge for small practitioners?**



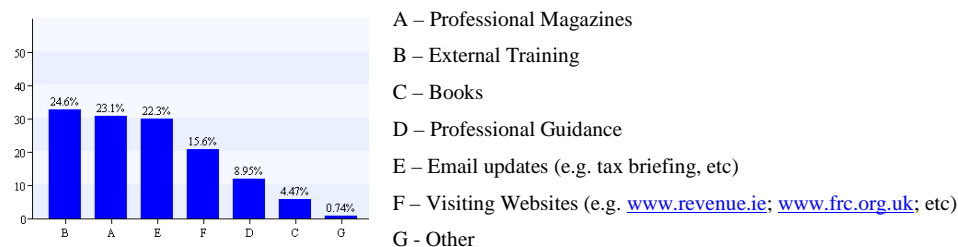
In response to the above results, the researcher asked the interviewees what steps they could take to help practitioners to adapt to changing reporting regime.

Mr Drennan stated that keeping auditors up-to-date is the responsibility of accountancy bodies not IAASA.

However, Mr Clifford stated that ACCA use a number of different channels in order to help practitioners keep up-to-date. First of all, he said that ACCA provide about 150 CPD courses every year. Secondly, in terms of written materials ACCA offers 3 newsletters, a member’s magazine as well as free online access for all members to the texts on accounting standards. Thirdly, he indicated that ACCA have an electronic knowledge library as well as an electronic notice board, where members can post queries and other members will answer those queries. Finally, he stated that the last way to keep up to date is to contact ACCA’s technical department.

Next, the researcher wanted to know how respondents adapt themselves to the changing regulatory framework. Nearly 25 percent of responses indicated external training as the most popular method of keeping up to date. In the researcher’s opinion, the popularity of the external training results from the requirements of the Continuing Professional Development (CPD) programme. According to this programme, all qualified accountants are obliged to spend a certain amount of hours annually on training. The researcher’s view seems to be validated by Mr Clifford, who admitted that ACCA members “are obliged to attend 21 hours a year” of CPD. The second most popular method of keeping up to date was by using professional magazines and email updates with 23 percent and 22 percent respectively. The last two sources seem to be important to practitioners, because they highlight the latest changes and developments as well as provide timely information, which helps in making decisions concerning future training or in-depth readings. The fourth and fifth most popular ways of keeping up-to-date were visiting websites, such as [www.revenue.ie](http://www.revenue.ie), [www.frc.org.uk](http://www.frc.org.uk), and using professional guidance with 15.6 percent and nearly 9 percent respectively. The least popular source turned out to be books and other sources with nearly 4.5 percent and nearly 0.8 percent (see figure 18).

**Figure 18: Please specify, how do you keep up to date?**







## **Chapter 5**

### **Conclusions and Recommendations**



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## ***Introduction***

The objectives of this thesis are to investigate the development of regulations affecting small auditors, to assess the level of compliance by small audit firms with regulations, to investigate the level of regulations affecting small audit practices and to assess the level of adaptability of small audit firms to the changing regulatory framework. This was achieved through an extensive review of literature related to the topic and also through the primary research. This final chapter outlines the conclusions and recommendations the author has arrived at.

## ***Conclusions***

This research has shown that the regulations affecting audit profession in Ireland has been evolving since the Companies Act 1963. The most important developments relate to the imposition on statutory auditors a duty to report indictable offences to the Director of Corporate Enforcement, the implementation of the second EU Money Laundering Directive by means of the CJA 1994 and the introduction of ISAs in 2004.

A review of the existing literature revealed that the main reason for the recent immense development of auditors' regulations was the legislators' response to various both national and international audit failures and other forms of corporate misuse. Thus, the regulators believe that by means of increased regulations they are able to protect investors in the future. (KPMG, 2005) However, Gully-Hart (2005) and Keane (2003) are of the opinion that audit regulations are reaching the maximum level. They also lean towards the view that authorities seek to impose unreasonable duties on auditors, only because they expect that auditors could have intervened to stop offenders from illegal acts. Furthermore, Jayasuria and Sharp (2006) expressed their concerns about a possible mismatch between 'the expectations of regulators' on the one hand and 'the capacity of auditors' on the other hand within the realm of duties and obligations. They are of the opinion that these expectations are set without taking into account the context in which auditors are trained and are expected to work. They remark that auditors are mandated to do a specific task and they are not the ultimate solution to every corporate financial problem.

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The literature review has revealed that there is a low level of reporting among small audit practitioners with regard to the Companies Acts, the Anti-Money Laundering legislation and Tax Law. (ODCE, 2003, 2005, 2007; FATF, 2006; RGA, 2000) With regard to the AML, the literature review findings are shared by both Mr Clifford who stated that *“there is probably a lot of non-compliance”* and 25 percent of respondents who stated that the anti-money laundering provisions are not effective. Furthermore, according to the questionnaire over 89 percent of respondents stated that a potential reporting of money laundering offence would damage their relationship with clients. This may suggest that respondents do not trust ‘tipping off’ provisions, which were especially designed inter alia to guarantee the anonymity of the person reporting a crime. With regard to company law, the findings of the literature review are supported by respondents of the primary research who confirmed that the vast majority of reports related to annual return defaults. The research also found that annual return defaults have recently been exempted as an indictable offence and therefore no longer have to be reported. The researcher is of the opinion that this fact may explain the significant reduction in the volume of reporting.

It was also found that the low reporting of indictable offences result from the following issues. First of all, some indictable offences will never be reported because of a very high burden of proof. Secondly, some indictable offences are badly drafted and ignore completely the reality, like in the case of not holding an AGM by a relatively small limited company. Finally, the enforcement of some legislation that does not work perfectly and accordingly some auditors do not report indictable offences, because *“it might damage their relationship with clients”* according to Mr Drennan. With regard to tax law, it was found that in spite of the obligation to report material tax evasion or non – compliance during the audit, according to section 1079 of the Taxes Consolidation Act, 1997, the Revenue Commissioners have received no reports to date. Unfortunately, the researcher is unable to present any reasonable reasons for this situation, because the Revenue declined to comment on the above issue.

The literature review has shown that small audit practices are subject to the same laws and regulations as large ones with regard to CAs, AML, Tax Law and ISAs with the exception of its Ethical Standards. These findings are supported by a number of authors such as: Keena (2002), Wong (2004), FEE (2006), Lambe (2003), Clifford

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(2006), Webb (2004) and McCarthy (2006) who claim that the ‘one size fits all’ approach is not appropriate for small practitioners. They are of the opinion that it is not fair to require small practitioners to have the same level of regulations, as their firms differ significantly from large ones in respect of aspects such as: complexity of audit, the relationship with clients and resources available. The respondents of the questionnaire carried out by the researcher were also clear on the point that they feel over-burdened by regulations. This view was also in agreement with two researcher’s interviewees. One of them said: *“it is hard not to have sympathy with the small practitioners”*. Then, he added: *“standards are becoming more complex, [...] you have an increasing legislation, and you got new reporting obligations on auditors. In a small organisation where you are trying to concentrate on doing the work and getting the fees in and you don not have the resources to invest in the same level of training as large firms, clearly that puts pressure on small firms”*. Even though all the researcher’s interviewees admitted that all the standards and legislation have been written for large companies, they made it clear that *“an audit is an audit”* and stated that it is very unlikely that small audit firms would get a separate set of standards or legislation. However, Mr Clifford affirmed that some pieces of legislation have to be revisited and rectified.

With regard to the assessment of the level of adaptability of small audit firms to the constantly changing regulatory framework, the literature review does not contain sufficient information on this question and therefore all conclusions are based on a primary research. On analysis of the primary research, the researcher discovered that the vast majority of respondents found keeping up-to-date and adapting to the changing regulatory framework as the biggest challenge for the small audit practices. This study also found that all professional accountancy bodies provide many services whose goal is to facilitate their members keeping up-to-date. Their services include inter alia: CPD courses, newsletters, a members magazine, free online access to the texts on accounting standards, electronic knowledge library and technical departments that deal with technical queries. In spite of the aforementioned comprehensive services supplied by accountancy bodies, the small audit practitioners remain under constant regulatory pressure.

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## ***Recommendations***

- ✓ This research highlights the need to revise, reclassify and simplify indictable offences by the Company Law Review Group.
- ✓ This research revealed the need to revise the anti-money laundering legislation by the appropriate state authority. The researcher is of the opinion that the definitions included in the legislation should be narrowed down and clarified in order to eliminate any confusion. Furthermore, in the researcher's view the Irish anti-money laundering legislation should be revisited and certain elements of the UK system should be implemented.
- ✓ With regard to small audit practitioners, the researcher would strongly recommend them to revise and diversify their offer of non-audit services. This suggestion is based on the information that the European Commission is looking at increasing the audit exemption threshold up to €10 million. If this happens all small audit firms will move out of statutory audit.
- ✓ With regard to better representation of the interests of small audit practices at national level, the researcher would recommend small practitioners to set up regional networks to pull common and technical resources. In the opinion of the researcher, the networks would give practitioners twofold benefits: a better lobbying platform and a reduction in the burden of constantly changing regulations.

## ***Further areas of research***

- ✓ The researcher is of the opinion that a comparative study should be carried out. It would state whether the regulations affecting the audit profession in Ireland are in line with other countries. Furthermore, the '*best practice*' from other countries could be investigated and potentially emulated.

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# Appendix I

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## ***Interview with Mr Ian Drennan***

### ***Question 1***

*Marek: How do you assess the cooperation between the IAASA and Accountancy bodies?*

*Ian:* When you think about this, the act provides for cooperation in some respects and having said that we have a specific role vis-à-vis the bodies and therefore there's only a certain point in which cooperation is appropriate but in those aspects, those areas in which do cooperate with the bodies which would be, our general approach to regulation plus standards and so on and so fourth. The principal way in which we do that is through ongoing contacts with them, the second way in which we do that is to establish in which we call a contact group where we meet them once or twice a year where we give them an opportunity to raise particular issues, so that's how we do it. In terms of assessment of it certainly our assessment of it works quite well. They might not share that assessment. They will have views for example regarding funding, which is fine which they will discuss those issues with us. They might have issues which regards to the way that we conduct our supervisory visits. That's something that we will listen to but not necessarily take on board. This far, we have only been up and running for a year now, but cooperation has been reasonably good. It's a little more difficult with those bodies that are based in the UK obviously as opposed to ones here but generally speaking I think in terms of cooperation, it's been pretty good so far.

### ***Question 2***

*Marek: Do you think that there is a need for a greater cooperation between the IAASA, Accountancy bodies and the Government in order to avoid legislation failures such as for example recent section 45 of CA 2003 (Directors' Compliance Statement)?*

*Ian:* When I read this with interest I wouldn't necessarily agree that Section 45 was a legislative failure. It certainly resulted in significant controversy.

*Marek: But according to solicitors, accountants, Big 4, it was a failure.*

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*Ian:* Again I don't think they would necessary say it was a failure but rather they would say it was defective. But I think the, again I have no ownership of this so I have no vested interest in it but I suppose you have to look at it in context Section 45 came from a time were we'd come out of DIRT review group and auditing had looked at it, and made recommendations at a time when it was clear that the company directors where possibly not being as diligent as regards to companies compliance with legislation as might be the case. For that reason I suppose you have to look at it in terms of the pendulum was very much that way with the result that it was thought at the time a great idea, bring in tax law, bring in company law and pretty much everything else so that was enshrined in legislation. And then some time later when people started to think about how do you actually go about by doing this. It becomes apparent that the company or tax law relevantly easy to identify with or even talking about for them to begin health and safety, environmental legislation, I mean where do you stop? How do you codify all these? So at that point, and this is an issue that we have come up with in other sections of that particular act is that they were great in from a philosophical perspective, when we actually try to put them into effect, it gives rise to all sorts of issues, so I think (I probably shouldn't be saying this on tape!) the solicitors probably loved it, in terms of the amount of work it was going to provide. The audit profession I don't think had a problem in principal with it but rather, we have to provide guidance to our members, which leaves us in a very difficult position in regards to because of the breadth of what's been covered by this. And at this same time as that, the pendulum had come back this way in terms of we'd gone from a hanging high model to an increasing emphasis on better regulations, stream line regulations, and all the rest of it. Some very powerful lobby groups argued strongly against the directors compliance, the profession, big business, I think against a backdrop of a very changed environment, politicians took on board some of those concerns and referred to the company law review group and I was actually part of the company law review group which examined this, and I think when everybody sat back 3 years later in the cold light of day, we sort of said, well maybe it did go too far hence it was reworded, I presume you have the words. So, failure was very strong, I think it was written at a particular time in where people where coming out of a particular set of circumstances and with many things when you look at it, 3 or 4 years down the line, it was a bit like Sarbanes-Oxley, it was a great idea at the time, if you look at it now,

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*Marek: But Sarbanes-Oxley is in the US and US is a big country in contrast to Ireland*

*Ian: absolutely but the principal is the same, 404 for example, I think anybody could understand where it came from at the time, but when people start to actually try and implement it you realise what's involved in it and try to audit it and then hence you get the sort of maybe this has gone too far.*

So anyway that's that first part of it, the second part of it greater cooperation, well I suppose that kind of suggests that there isn't cooperation at the moment, well I mean an obviously any piece of legislation which is going to go through parliament goes through a bill stage where people have a right to input. In the case of company law, I think it's probably pretty well catered for at the moment that way with the company law review group on which CCABI and the law society in fairness and other interested parties are represented. So one would like to think that if something like this was opposed again, that everyone would have an opportunity to express their views in fairness now I think even CCABI would say that when 45 was drafted at the time, even they wouldn't necessarily appreciate the significance of some of the issues, they were going to fall out, it's only when you sit down and put your mind to it, that they are right. But in the company law review group, it provides a pretty good forum and obviously we're members of that as well. I think there is probably slightly more difficulty in other areas for example, criminal justice legislation, where the Department of Enterprise Trade and Employment has no role but it's the Department of Justice and the Department of Justice will have a very different mindset to enterprise and employment. I don't mean that in the majority, but it's just what they do. But they do engage with the professions similarly with legislation relates to the financial service sector the Financial Regulator engages with the profession. They don't necessarily always get what they want, they do engage with them. Well I think have a lesser role in that regard, or in terms of we will advocate, yes, that whatever is done, for example reporting obligations for auditors, whatever code of legislation is done should be workable and it should be broadly comparable. In terms of you don't have to completely opt out of it in terms of, so I think the profession would argue with this, I would agree with them to an extent is that it's certain of the other departments, Enterprise and Employment including that which deals most with auditors. If you go to the Department of the Environment, I would say or somewhere like that, they don't

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necessary appreciate what auditors do, you say they don't know what it is that auditors do.

There was one recently, reporting obligations for auditors of travel agents which would come under tourism and I suppose there is a kind of easier response to, we want certain things to be brought to attention, and therefore get the auditors out without necessarily thinking about the scope of the audit and that's something that I know is the profession I think rightly so, so the answer I think to that would be yes, there is certainly latitude for, scope for greater cooperation in that respect.

### ***Question 3***

*Marek: Do you think that auditors from small audit practices are overburdened by regulations?*

*Ian:* It depends who you ask I suppose. I think its hard not to have sympathy with the smaller practitioner in terms of you were lued to it later on, standards are becoming more complex, you have ethical standards being introduced by the auditing practices board, increasing legislation, you got new reporting obligations on auditors, and in a small organisation where you are trying to concentrate on doing the work and getting the fees in and you don't have the resources to invest in the same level of training as large firms, clearly that puts pressure on firms. I think what the European Commission would say and give that you have to bear in mind that a lot of this stuff would come from the Commission, the adoption of ISAs and some of the other things that you talk about. The way that the Commission has sought to address that is by increasing the audit exemptions threshold. Admittedly that has only been done here very recently but when you look at audit exemption going up to 7.7 million here that's going to take a huge number of small practitioners out of the audit net, assuming that they want to be taken out of it. Again that is something that is of concern to the bodies that is concerned to us in terms of who is going to train the auditors of tomorrow so yes, things are increasingly becoming difficult. There are increasing opportunities for audit firms, small firms, to move out of audit and into other areas. So I think there is a balance there and while understandably small practitioners have had a lot of issues around ISAs. I mean, I certainly have heard small practitioners talking about ISAs, and some of them haven't even read ISAs secondly, I think is another couple of years when audit exemption kicks in and bear in mind the European

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Commissioner is looking in increasing the audits out of threshold by up 20% at the moment which brings it up to about 10 million, small practitioners of Ireland are not going to be auditing when the audit exemption threshold is 10 million. Banks have made it clear that they don't particularly rely to any significance on audit attempts for lending decisions, the Revenue coordinators don't need to either. They're predominantly interested in calculation tax and income then they've got significant powers to come behind it anyway.

*Marek: Most of my respondents stated that keeping up-to-date is the biggest challenge of small practitioners. What does IAASA do to help practitioners adapt to changing reporting regime?*

*Ian:* I think this question ties in with that I think its, their probably one of the same. In terms of what can be done to help them, the way you phrased the question what can IAASA do? IAASA is not averse to helping them. IAASA is also cognisance to the fact that its not IAASA's role to keep these people up to date, that's why they pay professional subscriptions to professional bodies. What we expect is the professional bodies to keep them up to date and ensure that there satisfied themselves that they are keeping up to date and through a process of monitoring where your not up to date which will be, should be pretty clear through your monitoring visits if your audits are completely deficient to do something about that. So the bodies in our estimation are principle responsible for that. I think the bodies themselves would agree with that. I suspect the bodies would take a dim view if I asked to move in onto their turf in terms of providing training and ongoing education because that's not least revenues strength of the bodies you know.

#### ***Question 4***

*Marek: Do you think that accountancy bodies fully represent the needs of small practitioners?*

*Ian:* My first reaction to that is that's a question for the firms, but anyway, you will undoubtedly get different views on that but I suppose its hard to answer that question without getting into antidote levels which I don't really want to do but we will draw attention to, as I'm sure you are aware of the Institute of Chartered Accountants in Ireland took a strategic review about three years ago at this stage, and if you look at



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that report, and you look at what gave rise to that review in the first place it was borne out of very much, it was becoming clear to the Institute through the lobbying through their smaller members that the Institute was spending too much time regulating its members and not enough time in lobbying for our interests and representing us and so on and so forth. And that's statement of fact because that's on the public record and the Institute took that on board by commissioning the Strategic Review Group which has I'm sure you're aware has substantiality resulted in the establishment of CARB. So the Chartered Accountants Regulatory Board has been established a lot of the, all of the regulatory aspects that the Institute previously carried out like Investigation Discipline's complaints handling has all been transferred to CARB and the Institute proper if you like now deals with representing members interests, lobbying for members and so on.

So there was definitely an issue the Institute has done something about it, whether the Institute has done enough about it is something that number 1 you've got to give time for the new model to bed in and number 2 is something you got to ask practitioners about. The other bodies the ACCA is obviously a different that their headquarters is in the UK so you probably do get some of that from the ACCA members. The CPA Institute on the other hand is based in Ireland and fully staffed in Ireland, so I suspect you get a lesser degree of dissatisfaction of the degree that, I could be wrong. Can I just ask, the interviews you have done with small practitioners where they largely members of one body or have you managed to get a spread across?

*Marek: I spread across all the bodies.*

*Ian: Any you got a similar response from all of them?*

*Marek: Yes*

*Ian: Well, that's interesting. That certainly suggests that from the Chartered body members that your meeting that changes as a consequence haven't kicked in yet. Obviously if they don't kick in, the Institute has a serious problem on its hands. The other bodies, that's interesting though the ACCA and CPA I would have thought that there might be some difference given that one is headquartered in Dublin and one isn't. But that is an issue for the body and the bodies know that there is a huge pressure on smaller practitioners and the bodies need to do something about that. It is a revenue stream for these guys as well you know.*

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### **Question 5**

*Marek: What do you think small audit practices should do to have their interests better represented at national and international level?*

*Ian: The principal way is clearly through their own bodies. Most of the Irish bodies or most of the bodies based in Ireland are members of FEE and IFAC.*

*Marek: But they probably represent big practices like Big 4 and they do not care about small audit practitioners, I mean their care but they care less.*

*Ian: That's not really for me to answer that maybe a perception out there. And if that's a perception by small Institute members well then that's something for the institute to do something about. There are very obvious reasons why the Institute, to pick the institute for example, has to have significant regard to what the big firm says No 1 the big firms contribute a significant volume of their funding and No 2 most committees of the Institute are staffed by representatives of big firms provide pro bono time that otherwise you know, members wouldn't benefit from. So I suppose you could say while the big firms populate those committees, everybody all the members benefit from it. It's a question of lobbying, I mean, I know the institute for example, has recently appointed a Director of Representation and Technical Policy, again as I said whether that starts to filter down or not, I know that there is probably difficult for a small firm in Sligo, Letterkenny or anywhere else to engage, well there is in addition to FEE there is a representative of European small practices, the name I cant think of at the moment I'm sure you can find it, so beyond that I think everyone accepts that they face, it's a challenge you know. One of the other ways that firms do it you know, firms in a region, cross bodies of whatever set up networks, regional networks and a number of the smaller firms have done that which allows them to pull resources, common resources and technical, and of course gives them a better lobbying platform. There is one thing in Ireland which is very timely given that there is an election tomorrow, there's one thing Irish people aren't bad at is lobbying and every Irish person knows a politician kind of thing you know, as I'm sure you well know! Irish small practitioners are not shy people.*

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### **Question 6**

*Marek: As there are no de minimis provisions in Irish legislation (Company Law – indictable offences, Anti-Money Laundering legislation), all offences no matter how small have to be reported. Most of my respondents stated that this lack of flexibility has a negative impact on the relationship with their clients. Do you think that de minimis provisions for minor offences should be introduced? What can IAASA do on this matter?*

*Ian:* Again, if you deal with company law at the moment, right, audits are required to report indictable offences. I can't remember the exact numbers, but I think there is about 150 or so indictable offences under Company Law, I can't remember. I might be completely wrong on that but if memory serves about 150 indictable offences and there are about 400 offences in total in the company's office. So the other 250 are summary offences. So there is a de minimis there, you don't have to report summary offences only indictable offences. So that's the first issue, now that having been said there is a degree of validity to that, for example I know that up until relatively recently because failure to file an annual report to the company's office is an indictable offence that auditors would have to report those, I used to work in the Offices of the Director of Corporate Enforcement, I know that the vast majority of reports were coming from auditors relating to that matter. And I think everyone would agree that was pretty much an unproductive use of everybody's time. That has been dealt with, that has been exempted so it is no longer required to report that. There is another issue in terms of, say for example, we will just say hypothetically that failing to issue a notice for an AGM on time, is an indictable offence, I don't know whether it is, [*Marek: yeah, it is*], well then if that's the case there is an argument for saying well that shouldn't be an indictable offence and if that was you know, if there was a re-modelling of that in terms of that's its not really that serious of an offence its certainly not up there with fraudulent trading. That would address some of those issues. The Company Law Review Group has just published its most recent report, and as I'm sure you are aware of the Company Law Review Group is currently working on a Consolidated Companies Bill which is going to bring all of current company's legislation to one bill. And one of the things that the Company Law Review Group has done in that bill is to reclassify offences so instead of the old summary indictable you will now have category 1,2,3,4 of offences. That is certainly going to help. Where the line would be drawn remains to be seen but we say for arguments sake the

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line is drawn at holders only will have to report category 3 and 4 only offences but then by definition that means that the less serious offences would be now category 1 and 2 say, we would say no longer require to be reported. So that would address it. I think if you spoke to the Director of Corporate Enforcement, he would probably agree that there is an issue that it's seems illogical that people would be reporting having missed and AGM notice deadline issue or something like that. What can IAASA do on the matter? Again it's not principally the IAASA's issue in that the company law is first and foremost the responsibility of the Minister for Enterprise Trade and Employment however we do sit on the Company Law Reform Group examines all of these issues so again we in the same way the other stakeholders have the same interest. And clearly if we see something that we don't think makes sense is inequitable, you know if we don't say it, you will be sure CCABI will say it or somebody else, you know. On the other stuff again, I made reference to the Department of Justice, or then again where Anti-money Laundering comes up, and again as you know, there hands are tied by European Directives on Money Laundering so, you have to transpose what the directive says. Now I'm not sufficiently detailed with Anti-money Laundering Directives to be able to tell you where the de minimis cut-off or what members state options there are but you also have to bear in mind that you are into a different sport, not holding an AGM, failed to file an annual return, Money Laundering are two completely different sports you know, and Money Laundering is taken very seriously, for a specific reason. So while there maybe some latitude to introducing some sort of de minimis positions that would result in easing the burden on small practitioners you also have to bear in mind that Money Laundering is designed to counter very serious criminal activity. That's were the balance has to be drawn but as I said earlier, I think the profession and various other interested parties given greater input into legislation that emanates from other departments but still has an impact on the profession would be helpful and it has the scope for additional positive developments in that respect.

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### **Question 7**

*Marek: According to annual reports done by the Office of the Director of Corporate Enforcement, there is a low reporting of indictable offences. In your opinion, what are the reasons for this situation?*

*Ian: Again, I don't think there is low reporting, I'm gone out of there a while, when I was there, the reporting levels year on year were going like that, the number of offences is a different issue. In terms of the volume of reporting its going up and that the reason of the volume of reporting is going up is that as you would expect as that legislation was commenced and continues to bed in, practitioners become more aware of the obligation, now the whole different issue is that the number of issue offences being reported, I think its about 150, but I can't remember, indictable offences and while I'm not up to date with these I mean at the last count I think you maybe talking about 9 or 10 different types of offences would be reported out of 150, so quite reasonably gives rise to a question as to why aren't the other 140 not being reported. There is a variety of reasons for that. First of all, some of them will never be reported, can never be reported because for example one of them is a liquidator acting as a liquidator while not qualified or a liquidator breaking some other piece of statute. If memory serves, there are about 20 offences relating to liquidators. Now as you know, when you've got a liquidator of a company there is no auditor, so there is no-one to report it. So by definition you can't have an auditor reporting while there is a liquidator there, that's 20 or 30 offences gone. Similar offences regarding receivers which may or may not be an issue and examiners. You have issues for example regarding say take an offence for fraudulent trading. Fraudulent trading has a very high burden of proof. First of all the incidence of fraudulent trading one can image in quite low but even where it isn't low to be able to pick something like that up will bring you to the threshold that you need, I can't remember the wording of this, reasonable grounds to believe I think, to bring you to that level, to that threshold is not going to happen very often and I think that's the reason why it certainly, it might not be the case now, but certainly back in my day those offences weren't being reported. A third explanation is you have to look at the scope of the audit. And again if you take again take fraudulent trading as an example, as you know the purpose of an audit, and the audit scope is not the purpose to seek to identify fraud but rather to design your tests in such a manner to give you reasonable expectation in identifying fraud if its there. They are two very different things so while you can design your audit tests,*

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in such a manner to give you reasonable expectation to identify your fraud if its there may or may not result in it so bear in mind that a lot of fraud is by its nature would be concealed or you got collusion or whatever the case maybe. It won't always necessary come to the surface of a necessary audit and doesn't necessary suggest a deficient audit to work but because its not naturally within the scope of an audit again it goes back to one of the points I made earlier is that the people who draft these things aren't always familiar as they might be with what an audit is, what is involved and the scope of an audit. With the result, the sort of offences you do see getting reported for example, directors' loans, right, now you cannot do an audit and have a set of accounts that shows directors' loans of less than 10% and not spot that. If you manage to finish an audit without spotting that you haven't done an audit properly. So that's a different issue, so every single time that arises you expect an indictable offence report. Similarly, if your client lies to you, and you subsequently identify that your client has lied to you, you can't possibly not spot that. And again that results in a report. I'm just trying to think of the other ones that have been reported.

*Marek: Excessive loans*

*Ian:* Yeah, if you cannot pick that up. If you take that annual returns, that sort of stuff failing to provide evidence to auditors and stuff you are up to about 3 or 4. There's another one that he has definitely got is furnishing false information which the company's office so a director signing a set of accounts that they know to be false is an offence. I'm pretty sure he has got one or two of those. So I think they are the main reasons. Now obviously there is an element I mean, sorry I wont say there is an element, there is suspicion, sorry there could be a suspicion that there is definitely a perception and it may be the case I don't know, but it may be the case that there are auditors who spot these things and sort of say, look its going to damage my relationship with my client or its not really a serious issue anyway or this guy just doesn't know any different, they don't even know they are supposed to report these things. There all very serious issues and what we expect of the bodies and what we would have communicated through to the bodies is that you do a monitoring visit to one of your audit firms, one of the things we expect to see evidence of is that you've reviewed an audit file is that you have considered whether the auditor himself has considered whether there are any breaches of company law whether he has a reporting obligation if he's in doubt whether he's taken legal advice and if he's decided not to report how he has satisfied himself that he hasn't reported it. Now if we don't see

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evidence of that, that's an issue that we have with the body. If the body identifies that a member has come across such an incidence and hasn't reported it we would expect that first of all result in an automatic if you like, a very significant adverse finding against that firm, but also that would transfer to the disciplinary process where the disciplinary process would then take its course, and as you are aware within any disciplinary process failure by an auditor knowingly to comply with his or her statutory obligations will be taken very seriously. So that's how we would satisfy ourselves with those things. Again if we saw that the body had gone out done a mandatory visit the guy would identify that there was a 10% or an excessive 10% loan hadn't reported it we would expect to see the body wrapping this guy up very seriously. If they hadn't done that to the member we would be doing that to the body.

### ***Question 8***

*Marek: Most of my respondents claim that International Standards on Auditing are not suitable for auditing of small firms, because they differ in terms of complexity of audit, the relationship with clients and availability of resources. Do you think that there are any ways to mitigate this burden? What can IAASA do on this matter?*

*Ian: When you talk to these guys, when they say ISAs aren't suitable for small audits, when you ask them develop that point, why aren't they suited, what are they saying to you?*

*Marek: There is too much planning involved, big complexity, the standards are too long, too much stuff inside and documentation.*

*Ian: On the last point of documentation, I would have limited sympathy for them. Because there is a reason that standard setters set out requirements documentation because we see it, we review the bodies, the bodies in turn review the firms, that the firm stock take has been done where is the evidence of stock take has been done, ah well I did it! A couple of notes in the file to effect, I mean its not evidenced, I mean the bodies might say to us yes, we have checked for example whether the guy has considerable reporting obligation and so on ok where is that evidenced? It isn't but we did it. If you can't evidence it, you know we have to take the view that it hasn't been done and that's the view that most regulators will take. I mean you will take a*

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pragmatic view to it, not black and white but I mean in general something has not been documented at a minimum that is a deficiency from our perspective. The person may well have done it but there is not a lot of point in doing it if you can't evidence the fact after. It doesn't have to mean that you have to have this amount of paper after and I think the standards do make that clear. You simply have to have enough documentation to substantiate what you have done and the conclusions that you have drawn from it on the basis of those conclusions and I don't think that's unreasonable. In terms of excessive planning I don't think that there is necessarily anything in international standards that requires an auditor of a small company to do a whole lot more than they already did. You were always required to know the business before you did the audit. You don't know the business you can't do an audit properly. In terms of the complexity the length of the standard I think that's definitely a point, that's a reasonable point. And as you know, the IAASB has engaged in a clarity process and one of the purposes of that is to try and take a lot of what's currently in if you like the standard and sort of move it into guidance and if its not, if it doesn't flow and isn't a necessary requirement arising from the core objective of the standard that's its moved back to simplify them and so on. I think that is being done but nevertheless you still have an issue that auditors of small firms are still being presented with more complex standards. What can IAASA do about that, very little because international standards are set up within international basis and whether we like it or not they are developed for international audits for larger ones. What the European Commission can do about it, has done about it as I've said, is to increase the statutory audit threshold. So unfortunately Irish practitioners have been bearing the brunt of this by consequence of the fact that until relatively recently an audit limit of 1.5 million which was completely out of wack with what was going on with the rest of Europe, so I don't think the blame, if you want to put it like that necessary lies at the feet of the Commission or but rather a reluctance and I would think an understandable reluctance on the part of the regulatory community to see it go from 1.5 to 7.7. I am happy to say that when a proposal was out there they would go from 1½ million to 7.7, I wasn't comfortable to go with it, certain other regulators weren't comfortable with it and we were a little surprised to see it going as high as it did, and as fast as it did. But that being said, it was very good news for small practitioners who were now faced with the choice of do I want to do an audit anymore at all? So a lot of those issues have



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been taken, so if you talk to small practitioners, many of these guys are auditing companies that turnover more than 7½ million per year.

***Question 9***

*Marek: But in spite of the fact that the threshold is so high, some companies still want to be audited.*

*Ian:* They still want to be audited, but it's no longer a statutory audit, No 1 and No 2 I think, this might be wrong because it's hard to quantify this but you probably will see an increase in movement for companies to decide not to have an audit particularly where they are owner managed because lenders don't attached at huge amount of significance to audits financial statements anymore nor do revenue. So I think you will see a gradual reduction in the number of companies that are audited. When we talked to the bodies for example one of the issues that we have been raising with the bodies is, ok, most of them do monitoring at the moment is largely on a voluntary basis so be it that it is a good idea when the eighth directive comes in June 2008 monitoring will be a requirement. Your non public interest audit firms will have to be done every six years the other ones will be done every three years. How are you going to gear yourself up for that? Because most of them on the basis of the figures we see will be struggling with that and what they all say to us is that well were expecting a significant drop off in the number of firms that we will be auditing with the increase of thresholds. Whether that transpires to be the case or not remains to be seen. When the bodies of whom these people are members are telling you that you have to give a fairly significant level of weight to that so time will tell but I think a lot of the grounds that small practitioners have had a good old winge frankly about ISAs I think will be removed over time. Now you raise another question on what can be done to mitigate and whether it would be logic to have another separate set of ISAs for small companies. Again we don't set standards but I will tell you what I hear elsewhere. I'm an observer at the Auditing Practices Board as you know, which sets the standards in the UK, the guys that sit around that table are comprised of representatives of audit firms and the lay members and I will say all to a man and woman but by and large the significant majority in terms, what you will keep hearing at those meetings is an audit is an audit. Because it's a small company doesn't mean it should be done with any less rigour than a bigger company. What seems to be implacable suggests to me is that for a small company you would have a separate set

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of standards with a reduced number of requirements. In my view and in the view of people who set audit standards for this island and the UK would be that would result in a substandard audit. Most people would take the view would rather no audit than a substandard audit. I mean irrespective of the size of companies using the same standard now clearly if you have ISAs of that size when you are auditing a bank, when you're auditing a small company, certain of the provisions and requirements in ISAs regarding the large company will be no application for a smaller company anyway. So its not something I would be in favour of I think it would represent dilution of the audit quality but in any event its kind of irrelevant because the IAASB is so tied up at the moment with clarity that this isn't even on their agenda nor do I see it being it in time in the future. So again if you bring the audit, sorry to keep going back to the same thing, if you get the audit exemption in the next year or two go to ten million, if you look at it in that context, if you go to Germany or France or countries like that, and you look at the significant number of companies under ten million turnover, aren't being audited anymore or having a contractual audit I suppose to a statutory audit your left with ten million plus. A ten million company is not a small company and I would take something against from saying that if your auditing a 10 million euro turnover company that you shouldn't be using a full set of standards.

### ***Question 10***

*Marek: As far as I know the IAASA doesn't deal with Money Laundering, but I would like you to ask what your view on Anti-money laundering is.*

*Ian:* In so far as it relates to audit, as I have said I think the exemption issue covers that significantly with regards to those matters that don't come in audit namely client identification which clearly impacts on you whether you are auditing or not any client that you take on. There are very good reasons for this. You got to bear in mind that if you go back five or ten years, you know where this country was, apart from non compliance of tax law, I mean, major drug dealers were able to walk into any bank and lodge 700,000 without giving any evidence of who they were, open multiple bank accounts, be able to make very significant transfers through bank accounts and all the rest of it, with no consequences that clearly was neither tenable nor acceptable. Now that unfortunately has a knock on affect on you and I who are law abiding citizens who simply go to an accountant or a solicitor that want to do a will or whatever, they still need to know who you are, or you want to open a bank account you got to bring

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in your driving licence. It's a bit of pain in the arse frankly, I think it's for the public's audits in the public's interest. There may be some latitude for misapplications, but I'm not sufficiently conversant with criminal justice legislation. The Money Laundering Directives will be able to answer that question.

*Marek: According to research done by Financial Action Task Force (2006), the number of money laundering reports made by all designated professionals is low. In your opinion, what are the reasons for this situation?*

*Ian:* It goes back to say, money laundering is, again, I think it relates, it goes back largely to the question on why there is so few categories of offence being reported to the ODCE. Your audit work or even less so if you're doing tax advice or even book-keeping for someone, is not going to throw up every single instance of Money Laundering. Clearly guys will also, any auditor is obviously going to have regard to his reputation and his client, the impact that it might have on his business generally and no professional will likely send a Money Laundering report to the relevant authorities in regards to being in the Revenue, without having very serious grounds for doing so. This leaves it open to litigation, reputational damage and so on. I haven't seen any of these reports, they don't come to us they go to Revenue, so I haven't seen them; I don't know what's in them. Without being able to see what's in them it's hard to answer that question. But you may be able to get a better steer on that from justice or somebody there you know.

*Marek: Thank you for your time*

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## ***Interview with Mr Aidan Clifford***

### ***Question 1***

*Marek: How would you assess the cooperation between ACCA, the Government, the ODCE and the IAASA?*

*Aidan:* Starting with probably the Gardai we do have legislation that requires accountants and auditors to report Money Laundering offences which is actually almost all inclusive criminal activity that gives rise to proceeds as Money Laundering. There is a joint committee that meets and discusses the issues on various EU Directives. The profession, they meet now they probably, now the accounting profession have different guidelines that for example, the law society, and is currently in process of developing common guidance for all solicitors, accountants and auctioneers and so on. In terms of work, we work quite well. There have been legislations in the past that was past and turned out to be totally unworkable even though we suggested it but the cooperation is getting better. In terms of the Office Director of Corporate Enforcement we meet them about, on the profession we meet them about 6 or 7 times a year. We have two committees, protective committees that deals with technical issues like drafting guidance on all the voluntary committees and things like that. We also have a policy committee that meets on a regular basis to discuss issues such as non reporting, that type of thing. In terms of IAASA, we meet IAASA on a regular basis. They have recently been in and have reviewed the systems in place that ACCA has in place to monitor our members and our disciplinary procedures. They done it with all the other bodies and anything they propose to do, they consult us before hand and so there is quite a lot of cooperation between the regulators and the professional body.

### ***Question 2***

*Marek: Do you think that there is a need for a greater cooperation between the IAASA, Accountancy bodies and the Government in order to avoid legislation failures such as recent section 45 of CA 2003; I am talking here about the Directors' Compliance Statement?*

*Aidan:* Yes, we do make submissions to government. Our submission on compliance statements was unnecessary, there are mistakes we made in the past. I think they have acknowledged that those mistakes have been made and currently seem very willing to

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cooperate with the bodies to ensure that the best legislation is written. You may not realise that most of the company law review group were run through a committee, a business law consulting committee counting bodies in Ireland and they will make submissions and technical corrections and suggestions to CNRG. In most cases these are taken on board.

### ***Question 3***

*Marek: Do you think that accountancy bodies fully represent the needs of small practitioners in Ireland?*

*Aidan: I think ACCA represents small practices in particular. It is difficult to provide them with every single service they need in a cost effective manner. We provide them with as many services as we can and we do certainly in terms of the positions the ACCA take because we're a democratic body we are made up of a council below that at the very local level there are small networks. Those networks generally have one member who sits on the Irish Partitions Network. The Irish Partitions Network feeds into the Executive Committee and that has a council representative and that feeds into council. ACCA position is very much member led and members have an issue at small business level, small practice level, they will be fed through right through the system and generally we can solve any problems that they do have.*

### ***Question 4***

*Marek: What do you think small audit practices should do to have their interests better represented at national and international level?*

*Aidan: Small practices tend to be very busy just doing their day to day work. They tend to not to get involved in much as maybe they should. There is an opportunity coming up now for them to talk directly to the standards setters who set International Accounting Standards that feed into UK standards and that meeting is in Dublin not very many of them will take up the opportunity although some of them should. I think to be better represented you need to be more active and actually bring the issues to your professional body, a lot of the time the issues don't come to our attention until perhaps they become a very large issue. Smaller issues tend not to be brought to our attention as quickly as they should most of the time we can sort these issues.*

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### **Question 5**

*Marek: Do you think that auditors from small audit practices are overburdened by regulations?*

*Aidan:* Yes. The amount of paper work you have to go through a practice is just unbelievable. Its not just a financial statement or a tax return its CSO, Central Statistics Office, forms that come out, the amount of paper that is necessary to keep a small client compliant its just unreal its, and its not getting smaller. There is way too much red tape. And in fact, many accountants find that they can't recover the cost they incur it just keeping people compliant. A lot of small businesses actually don't realise how much work that is involved in it and therefore reluctant to pay but most of the paper work is to keep various government departments happy. In a period when we have a self assessment we should have to fill in one figure on a tax return and that is the amount of tax due and sign. There shouldn't have to be pages and pages and pages of supporting documentation to allow revenue ratify return. It bears too much paper work for small practices.

### **Question 6**

*Marek: Most of my respondents stated that keeping up-to-date is the biggest challenge of small practitioners. What does ACCA do to help practitioners adapt to changing reporting regime?*

*Aidan:* We have a number of different channels. We have, I suppose we could start with the basic stuff, we provide about 150 continual professional development courses around the country every year. In terms of written material, we will have 3 newsletters specifically for people in practice in Ireland. We also have another newsletter for people who have clients who might be based in Northern Ireland or the UK and we've got other sectors specific newsletters as well, we've got the members magazine which has generally higher level issues as discussed in it. We also have online access, free online access for all members to the text of all the accounting monitoring standards all around the world. We have a knowledge library which is an electronic library where all the information is brought together in one way you could search it electronically. Other than that we have local area networks where we would get members of the small practices together where we meet usually on a monthly basis to discuss issues of importance to them. I'm finding, we got an electronic notice board where members can post queries and other members will answer those queries

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but the last way to keep up to date is me. My job is to answer their technical queries over the phone and by email.

***Question 7***

*Marek: So, it seems to be easy for ACCA member to be up-to-date.*

*Aidan: No it's not as it is considerably time consuming. Yes, the material is made available to them and they can do it but it does take time.*

*Marek: I look at some guidance from ACCA and they seem to be 40 pages long, consequently it must take plenty of time to go through them and what is worse, they contain very technical issues like Anti-money Laundering legislation. As a result of this, I think it must be very onerous for small auditors to go through this.*

It is quite onerous to go through this, as with all things technical you have to have it precisely right and there's no point being almost right. The material has to be very carefully drafted. I draft quite a lot of it myself. It needs to be absolutely technically correct. All of the issues need to be mentioned and discussed. The technical material tends to be long we will usually hold lectures which most of our lectures are evening lectures which are about two hours. We run family CPD sessions which are 7 hours long. Our members are obliged to attend 21 hours a year.

***Question 8***

*Marek: I would like to ask you about CPD. What were the reasons behind an introduction of Continuing Professional Development?*

*Aidan: Well it's a requirement of BD overarching body of accountants. If you want to be a member you must have a compulsory CPD for all your members so that's a primarily motivator. The main reason that we would have CPD would be for example an accounting standards, if you didn't update yourself with accounting standards within a 3 or 4 year period you would probably be 50% out of date. So they are changing very rapidly there's no point being partially an accountant. We require that our members keep totally up to date all of the time.*

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### **Question 9**

*Marek: Do you think that CPD meets its objectives?*

*Aidan: Objectives to CPD is part knowledge sometimes we get it done quicker sometimes delegates just start receptive to the matters being said. CPD is effective if it's done properly. It's not always done properly.*

*Marek: Is there any assessment process going on?*

*Aidan: There is no assessment process. If you do CPD, if you physically attend the course it is considered that you have discharged your responsibilities. There are certain online courses where it is difficult for us to verify the member has actually done the course so for online courses we have a small number of multiple choice questions coming back with maybe 100 so they might have to answer maybe 5 or 10 and if they get those right it is proved that they have attended if you like and they can print those off as an account for CPD then. So where you physically must attend then we don't have a test afterwards where you don't physically attend you must have evidence of having done it.*

### **Question 10**

*Marek: As there are no de minimis provisions in Irish legislation (Company Law – indictable offences, Anti-Money Laundering legislation), all offences no matter how small have to be reported. Most of my respondents stated that this lack of flexibility has a negative impact on the relationship with their clients. Do you think that de minimis provisions for minor offences should be introduced?*

*Aidan: Well they have removed the major problem. The major problem was late annual returns so now the main reason people are reporting clients is illegal loans and because of a sort of quirk in the wording of the illegal loans section the directors really get one free go because as it was not an indictable offence as they knew it was illegal to take a loan and most directors don't know that it is illegal. So in terms of, so I think that question is probably a little bit old at the moment there are 300 or so or 400 indictable offences there is really only half a dozen that are reported there's not a very many get reported. Indictable offences are not as big an issue as for example money laundering reporting which is much more inclusive. Indictable offences, if you are reporting somebody it is because they haven't kept proper books of account or you are reporting them because they have taken out an illegal loan and done it twice*



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and they won't hold an AGM or EGM. You know, its reporting only seems in my opinion is not as big an issue as money laundering reporting.

*Marek: You are probably right. I based my knowledge on guidance from the ODCE. I think it was the guidance from 2006, I try to do my best if it's out of date sorry for this.*

*Aidan: No problem, they have removed the main difficulty with indictable offences I see no reason why they would not be reported if you not keeping proper books then you should be reported.*

*Marek: But this guidance from ODCE says auditors have to report all indictable offence no matter how small and it's up to the Director of Corporate Enforcement to decide whether it is proper for prosecution or not, it's not for auditor to decide?*

Well you must report but if you are reporting there is no exemption for de minimis and the end of the day, you either have held the AGM or you haven't. It's black or white. Either you have a legal loan or you don't or you have kept proper books of account or you haven't. So de minimis is not really relevant in terms of indictable offences.

### ***Question 11***

*Marek: Some claim that International Standards on Auditing, Anti-Money Laundering legislation are designed for big companies rather than for small ones. Do you think that 'one size fits all' approach is suitable for small practitioners?*

*Aidan: You have two questions there: the money laundering and the international auditing standards. The international auditing standards have been written for very large companies they are very difficult to apply to very small companies. They are very expensive to apply to small companies. They don't read accounts of small companies but there are some guidance notes available on how to apply them to small companies. They have certainly made auditing much more expensive and yet they have one set of standards is probably not appropriate but an audit is an audit. You either audit according to the current standards or you haven't it doesn't seem appropriate to say oh we don't have to apply some of these because they are small. It's just made it more expensive and it's made auditors to be much more careful. In terms of money laundering; the money laundering regulations are applicable to the tiniest smallest practice as they are to KPMG or any big practice. They are there to*

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insist that a practice reports crime. I see nothing wrong with requiring a practice to report crime.

***Question 12***

*Marek: Do you think that there are any ways to mitigate this burden? I am talking here about anti-money laundering legislation and international standards on auditing. Is there a need to introduce a separate set of standards?*

Aidan: There have been some calls to bring in small audit extensions on small companies but really there is no appetite for that because an exemption is available in most EU states so I think that it's unlikely that there is going to be a small set of auditing standards. In terms of de minimis in money laundering, as far as I know they have brought in a system in the UK where you can report all the minor stuff in a very summary way and the major stuff it takes in a larger report. It's hard to argue with that now, as there are not enough money laundering reports going in, you know 10,000 money laundering reports in the year which is not a lot and I think there is probably a lot of non-compliance with requirements of money laundering regulations. If there were many more reports then I would argue that we should have de minimis. There is a discussion of de minimis the profession is looking for 10,000, the Gardai are looking for 250,000 so there is a long way to go there.

*Marek: But how about the EU Directive on money laundering? As far as I know the money laundering was implemented because of the EU directive.*

Aidan: That's right yes

*Marek: So, is there any scope to mitigate the burden at national level?*

Aidan: The directive is very broad and how it is implemented in each state is up to the member state. There is a money laundering steering committee which is currently looking at the third directive. There's a lot of call for de minimis one will probably be introduced. There is no de minimis because of what is sometimes referred as smurfing were if you set a de minimis of 1000 there will be lots of 999 transactions so I can see an argument against a de minimis, but having said that in theory stealing a mars bar from a local shop is a money laundering which makes it rather silly that you have to report every single tiny transaction. In theory an unreconciled bank balance by a couple of euro is reportable. Now people are reporting that. But the police aren't taking any action against those that don't do it.

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**Question 13**

*Marek: Do you think that these reporting obligations (indictable offences and money laundering) can have impact on the relationship with clients? Taking into account the fact that small practitioners are the major and very often the only advisors of small businesses.*

*Aidan: Usually in tax evasion it's very rare to be anything other than tax evasion. In the event of tax evasion, once you make the report to Revenue they do an audit inspection. Once they do an audit inspection they won't say why they have done it, it could be random it could be because of a money laundering report but they will have sufficient information in your report to do an inspection, find the undisclosed income and bill the person for the unpaid tax and interest and penalties. It is quite anonymous. If you make a report into money laundering it tends not to be discovered by the client.*

*Marek: Thank you for your time.*

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## Appendix II

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## ***A copy of the questionnaire***

### **General**

1. Number of partners

Your Position: .....

|     |       |     |
|-----|-------|-----|
| 1-2 | 3 – 5 | > 5 |
|-----|-------|-----|

2. Number of employees

|      |         |       |
|------|---------|-------|
| <=10 | 11 - 19 | > =20 |
|------|---------|-------|

3. How many years of post – qualification experience do you have?

|       |       |        |
|-------|-------|--------|
| 1 – 4 | 5 – 9 | > = 10 |
|-------|-------|--------|

4. Do you agree that keeping up-to-date is the biggest challenge of small practitioners?

|                |       |         |          |                   |            |
|----------------|-------|---------|----------|-------------------|------------|
| Strongly agree | Agree | Natural | Disagree | Strongly disagree | No opinion |
|----------------|-------|---------|----------|-------------------|------------|

5. Do you feel that you can adapt to changing regulatory frameworks?

|        |         |           |        |       |
|--------|---------|-----------|--------|-------|
| Always | Usually | Sometimes | Seldom | Never |
|--------|---------|-----------|--------|-------|

6. Could you specify which area is the most difficult/problematic for you?

- Tax Law
- International Standards on Auditing
- Accounting Standards
- AML
- Company Law
- Other, please specify.....

6. Do you feel over – burdened by regulations?

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

IF, YES

6.1 Please rank, which regulations are the most onerous for you  
(the most onerous = 1; the least onerous = 6)

- Tax Law
- International Standards on Auditing
- Accounting Standards
- AML
- Company Law (indictable offences)
- Other, please specify.....

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7. Please specify, how do you keep up to date?

- Professional Magazines
- External Training
- Books
- Professional Guidance
- E-mail updates (e.g. tax briefing, etc.)
- Visiting Websites (e.g. [www.revenue.ie](http://www.revenue.ie), [www.frc.org.uk](http://www.frc.org.uk), etc)
- Other, please specify.....

8. What percentage of your chargeable time do you spend keeping up to date?

|            |       |          |        |
|------------|-------|----------|--------|
| Time spent | <= 5% | 6% - 10% | >= 11% |
|------------|-------|----------|--------|

9. Do you use service of solicitor?

|     |    |
|-----|----|
| Yes | No |
|-----|----|

IF, YES

9.1 Please state how often you use it

|        |             |        |
|--------|-------------|--------|
| Always | When needed | Rarely |
|--------|-------------|--------|

IF YOU RECEIVE EXTERNAL TRAININGS:

10. Please state, how often do you receive trainings?

|              |                |             |                           |
|--------------|----------------|-------------|---------------------------|
| Once a month | Every 6 months | Once a year | Less often than once a yr |
|--------------|----------------|-------------|---------------------------|

11. Please specify in what areas have you received training?

- Tax Law
- International Standards on Auditing
- Accounting Standards
- Anti – Money Laundering Legislation
- Company Law
- Other, please specify.....

12. How often does your firm conduct trainings for employees?

|       |                           |              |                |             |
|-------|---------------------------|--------------|----------------|-------------|
| Never | Less often than once a yr | Once a month | Every 6 months | Once a year |
|-------|---------------------------|--------------|----------------|-------------|

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## **Questions relating to the Anti – Money Laundering Legislation**

13. Please rank, which elements of compliance with the AML are the most time consuming for you.

(the most consuming = 1; the least consuming = 5)

|  | Rank (1 - 5) |
|--|--------------|
| Training   |              |
| Obtaining client identification/KYC rules  |              |
| Analysing money laundering report forms  |              |
| Monitoring transactions  |              |
| Procedures (like writing/updating the handbook, keeping up to date, interpreting the new Guidance Notes) |              |

14. Have you briefed staff on the AML reporting obligations?

|     |    |
|-----|----|
| Yes | No |
|-----|----|

15. Do you think the anti - money laundering regulations are effective for small practices?

|                |           |         |               |            |
|----------------|-----------|---------|---------------|------------|
| Very effective | Effective | Natural | Not effective | No opinion |
|----------------|-----------|---------|---------------|------------|

16. Do you have a Reporting Officer, who is responsible for the firm's compliance with the reporting regime?

|     |    |
|-----|----|
| Yes | No |
|-----|----|

17. Do you think that reporting of the Money Laundering offence would damage your relationship with a client?

|                 |          |            |             |
|-----------------|----------|------------|-------------|
| Highly Probable | Possibly | Not at all | Do not know |
|-----------------|----------|------------|-------------|

18. Do you think that small audit practices should be exempted from the AML?

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

19. Do you think that the AML are useful / needed for small practitioners?

|        |         |            |
|--------|---------|------------|
| Useful | Useless | No opinion |
|--------|---------|------------|

## **Company law**

20. Do you comply with company law reporting obligations (indictable offences)?

|        |               |                          |        |       |
|--------|---------------|--------------------------|--------|-------|
| Always | When material | Fundamental requirements | Rarely | Never |
|--------|---------------|--------------------------|--------|-------|

21. Do you think that the company law reporting obligations are too onerous?

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

22. Have you ever reported indictable offence?

|     |    |                 |
|-----|----|-----------------|
| Yes | No | Do not remember |
|-----|----|-----------------|

23. Have you ever reported indictable offence except from annual return defaults?

|     |    |                 |
|-----|----|-----------------|
| Yes | No | Do not remember |
|-----|----|-----------------|

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24. Do you think that reporting of indictable offence would damage your relationship with a client?

|                 |          |            |             |
|-----------------|----------|------------|-------------|
| Highly Probable | Possibly | Not at all | Do not know |
|-----------------|----------|------------|-------------|

25. Do you think that the construction of indictable offences is too rigid and does not allow exercise the professional judgement?

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

### **International Standards on Auditing**

26. Do you think that the current ISAs are too onerous for small practices?

|                |       |         |          |                   |            |
|----------------|-------|---------|----------|-------------------|------------|
| Strongly agree | Agree | Natural | Disagree | Strongly disagree | No opinion |
|----------------|-------|---------|----------|-------------------|------------|

27. Please, specify what elements of ISAs are the most onerous for you:

- Excessive Documentation
- Planning
- Length
- Complexity
- If other, please specify.....

28. Do you think that small practices should have a separate set of ISAs?

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

29. Do you agree that using of ISAs improve the quality of audit?

|                |       |         |          |                   |            |
|----------------|-------|---------|----------|-------------------|------------|
| Strongly agree | Agree | Natural | Disagree | Strongly disagree | No opinion |
|----------------|-------|---------|----------|-------------------|------------|

30. Do you think that old auditing standards fully met the needs of small practices?

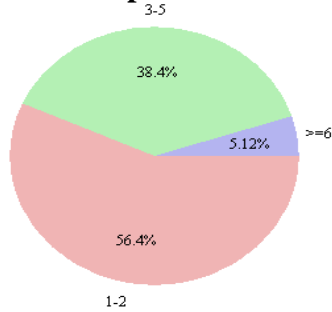
|     |    |             |
|-----|----|-------------|
| Yes | No | Do not know |
|-----|----|-------------|



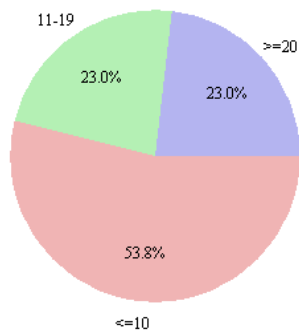
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## Results of the questionnaire

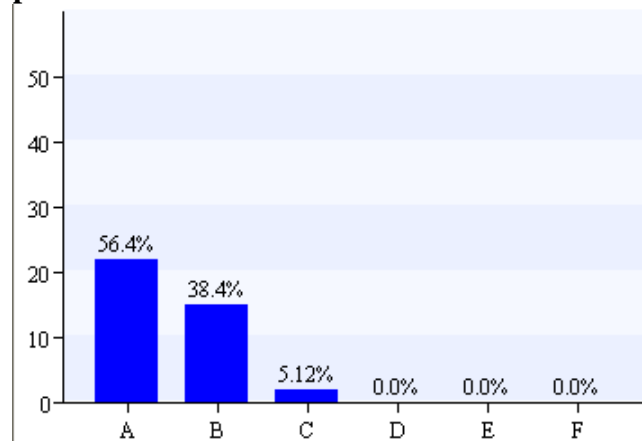
### Number of partners



### Number of employees

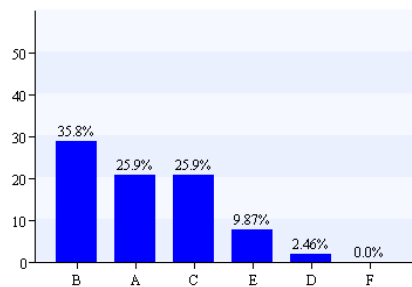


### Do you agree that keeping up-to-date is the biggest challenge for small practitioners?



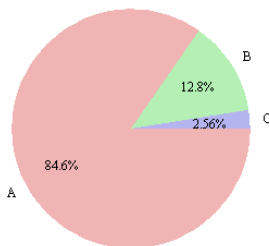
- A – Strongly agree
- B – Agree
- C – Neutral
- D – Disagree
- E – Strongly disagree
- F – No opinion

**Can you specify which area is the most difficult/problematic for you?**



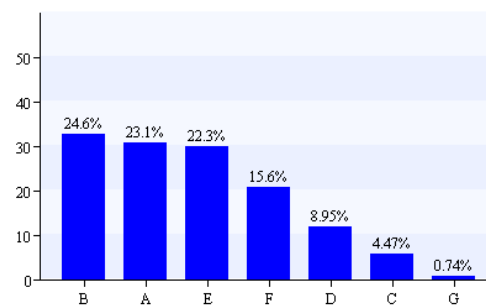
- A – Tax Law
- B – International Standards on Auditing
- C – Accounting Standards
- D – Anti-Money Laundering Legislation
- E – Company Law
- F – Other

**Do you feel over-burdened by regulations?**



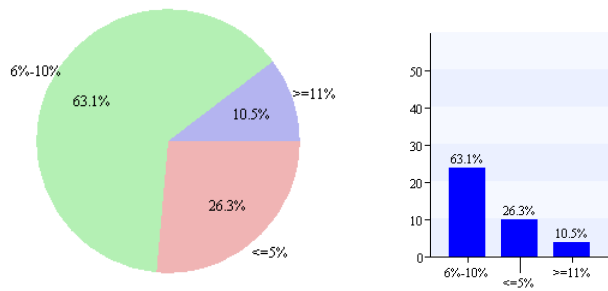
- A – Yes
- B – No
- C – Do not know

**Please specify, how do you keep up to date?**

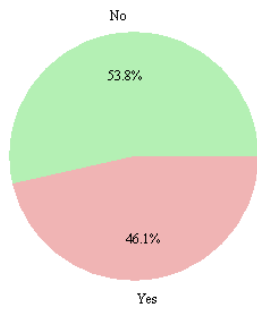


- A – Professional Magazines
- B – External Training
- C – Books
- D – Professional Guidance
- E – Email updates (e.g. tax briefing, etc)
- F – Visiting Websites (e.g. [www.revenue.ie](http://www.revenue.ie); [www.frc.org.uk](http://www.frc.org.uk); etc)
- G - Other

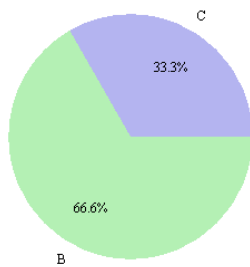
**What percentage of your chargeable time do you spend keeping up-to-date?**



**Do you use the services of solicitor?**

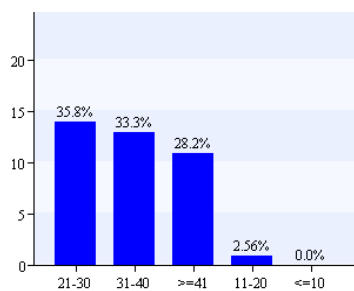


**Please state, how often do you use it?**

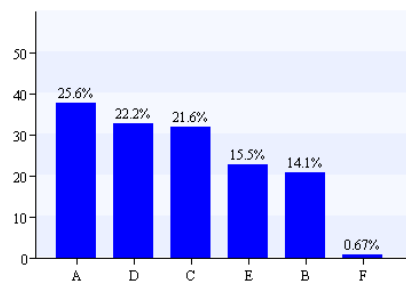


- A – Always
- B – When needed
- C – Rarely

**Please state, how many hours of CPD do you do per annum?**

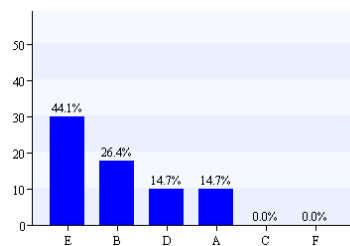


**Please specify, in what areas have you received training?**



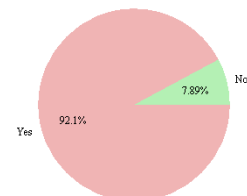
- A – Tax Law
- B – International Standards on Auditing
- C – Accounting Standards
- D – Anti-Money Laundering Legislation
- E – Company Law
- F – Other

**Please specify, which elements of compliance with the Anti-Money Laundering Legislation are the most time consuming for you?**



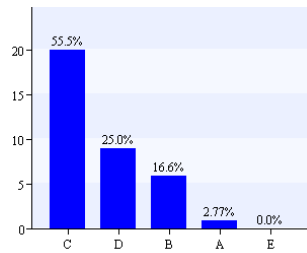
- A – Training
- B – Obtaining client identification/ Know Your Customer Rules
- C – Analysing money laundering report forms
- D – Monitoring transactions
- E – Procedures (like writing/updating the handbook, keeping up-to-date, interpreting the new Guidance Notes)
- F – Other

**Have you briefed staff on the Anti-Money Laundering reporting obligations?**



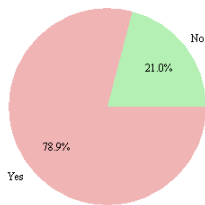
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**Do you think that the Anti-Money Laundering regulations are effective for small practices?**

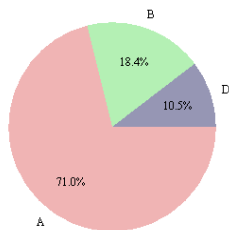


- A – Very effective
- B – Effective
- C – Neutral
- D – Not effective
- E – No opinion

**Do you have a Reporting Officer, who is responsible for the firm’s compliance with the reporting regime?**



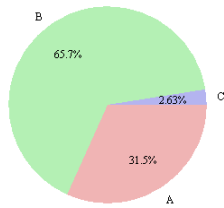
**Do you think that reporting of the Money Laundering offence would damage your relationship with a client?**



- A – Highly Probable
- B – Possibly
- C – Not at all
- D – Do not know

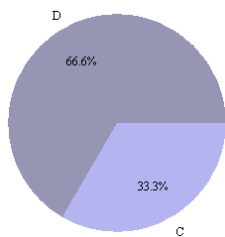
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**Do you think that small audit practices should be exempted from the AML?**



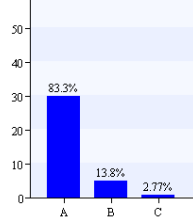
- A – Yes
- B – No
- C – Do not know

**Please state, what should be the limit?**



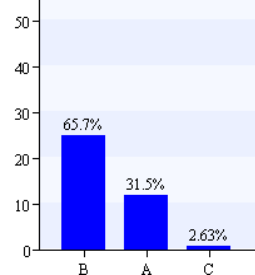
- A - €1.000
- B - €1.001-€5.000
- C - €5.001-€10.000
- D >= €10.001
- E - Other

**Do you think that the company law reporting obligations are too onerous?**



- A – Yes
- B – No
- C – Do not know

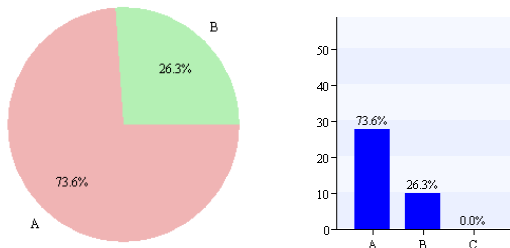
**Do you think that small audit practices should be exempted from the AML?**



- A – Yes
- B – No
- C – Do not know

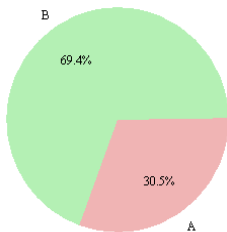
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**Have you ever reported an indictable offence?**



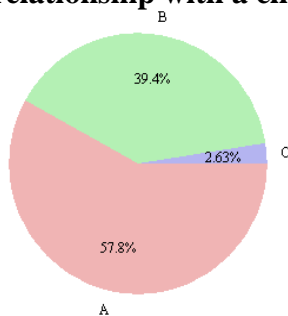
- A – Yes
- B – No
- C – Do not remember

**Have you ever reported an indictable offence except from annual return defaults?**



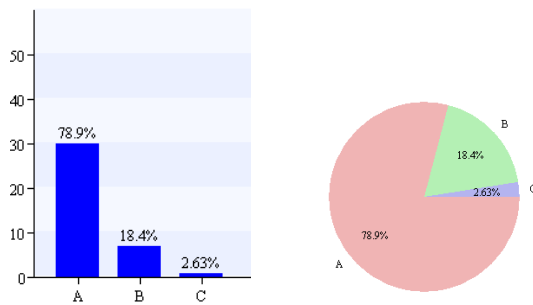
- A – Yes
- B – No
- C – Do not remember

**Do you think that reporting of an indictable offence would damage your relationship with a client?**



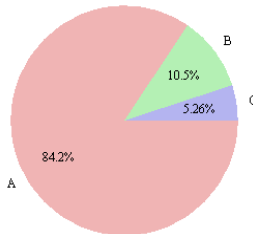
- A – Highly Probable
- B – Possibly
- C – Not at all
- D – Do not know

**Do you think that the company law reporting obligations are too rigid and do not allow you to exercise professional judgement?**



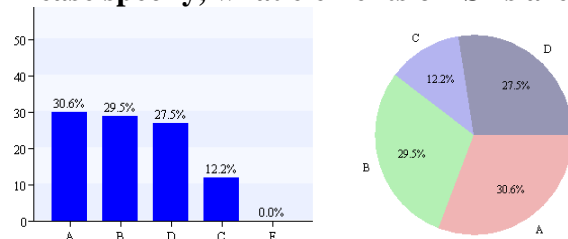
- A – Yes
- B – No
- C – Do not know

**Do you think that the current International Standards on Auditing are too onerous for small practices?**



- A – Strongly agree
- B – Agree
- C – Neutral
- D – Disagree
- E – Strongly disagree
- F – No opinion

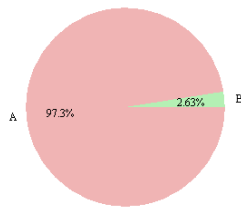
**Please specify, what elements of ISAs are the most onerous for you?**



- A – Excessive Documentation
- B – Planning
- C – Length
- D – Complexity
- E – Other

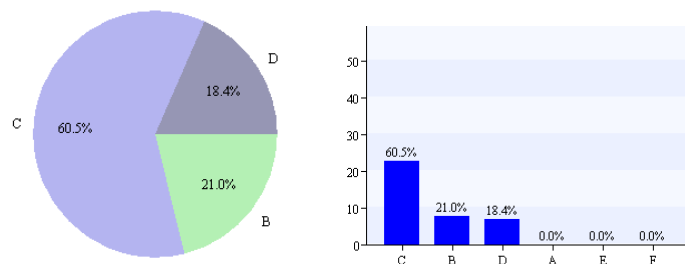


**Do you think that small practices should have a separate set of ISAs?**



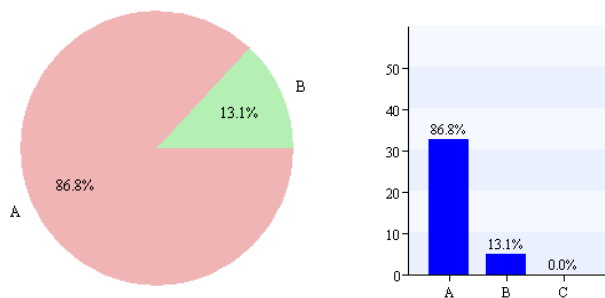
- A – Yes
- B – No
- C – Do not know

**Do you agree that using ISAs improve the audit quality?**



- A – Strongly agree
- B – Agree
- C – Neutral
- D – Disagree
- E – Strongly disagree
- F – No opinion

**Do you think that the old auditing standards fully met the needs of small practices?**



- A – Yes
- B – No
- C – Do not know

Additional comments:

**It is not the size of the practice that should determine the complexity of the auditing standards but the size of the company being audited. Increased audit exemption thresholds are going a long way to reducing the burden on small practices.**

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## Appendix III

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## ***Letter to small audit practitioners***

Dear XXXX,

I am a student in Letterkenny Institute of Technology. I am completing my **Masters in Accounting**. I am currently undertaking a dissertation entitled “**Investigation of regulations affecting small audit practices**”. In order to complete this I need your help by participating in my questionnaire.

The primary purpose of my study is to determine whether the small audit practices are overburdened by the laws and regulations in Ireland.

I would be grateful if you could click on the link below and fill in the questionnaire. This questionnaire will take you approximately 3-5 minutes to fill in.

**Please click here:** <http://www.my3q.com/go.php?url=marekmidzio/79203>

**Confidentiality:** Please note that all the information collected in this questionnaire will be used for the purpose of my dissertation only. My final results will not reveal the identity of any individual responses.

My supervisor is Paul McDevitt, Lecturer at LYIT. If you wish to confirm directly with him that I am a student in LYIT, he can be contacted at [paul.mcdevitt@lyit.ie](mailto:paul.mcdevitt@lyit.ie).

I would like to take this opportunity to **thank you** for your time and co-operation.

Yours sincerely

Marek Midzio

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## Appendix IV

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## ***Interview Guide with IAASA***

1. How do you assess the cooperation between the IAASA and Accountancy bodies?

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2. Do you think that there is a need for a greater cooperation between the IAASA, Accountancy bodies and the Government in order to avoid legislation failures such as for example recent section 45 of CA 2003 (Directors' Compliance Statement)?

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3. Do you think that auditors from small audit practices are overburdened by regulations?

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4. Most of my respondents stated that keeping up-to-date is the biggest challenge of small practitioners. What does IAASA do to help practitioners adapt to changing reporting regime?

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5. Do you think that accountancy bodies fully represent the needs of small practitioners?

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6. What do you think small audit practices should do to have their interests better represented at national and international level?

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7. As there are no de minimis provisions in Irish legislation (Company Law – indictable offences, Anti-Money Laundering legislation), all offences no matter how small have to be reported. Most of my respondents stated that this lack of flexibility has a negative impact on the relationship with their clients. Do you think that de minimis provisions for minor offences should be introduced? What can IAASA do on this matter?

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8. According to annual reports done by the Office of the Director of Corporate Enforcement, there is a low reporting of indictable offences. In your opinion, what are the reasons for this situation?

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9. Some claim that International Standards on Auditing, Anti-Money Laundering legislation are designed for big companies rather than for small ones. Do you think that ‘one size fits all’ approach is suitable for small practitioners?

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10. Most of my respondents claim that International Standards on Auditing are not suitable for auditing of small firms, because they differ in terms of complexity of audit, the relationship with clients and availability of resources. Do you think that there are any ways to mitigate this burden? What can IAASA do on this matter?

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11. Do you think that small practices should have a separate set of ISAs?

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12. Most of my respondents (small audit firms) see the Anti-Money Laundering regulations as an unnecessary burden. Do you think that it is possible to exempt small audit practices from the Anti-Money Laundering legislation? Do you think that there are any ways to mitigate this burden?

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13. According to research done by Financial Action Task Force (2006), the number of money laundering reports made by all designated professionals is low. In your opinion, what are the reasons for this situation?

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## ***Interview Guide with Accountancy body***

1. How would you assess the cooperation between Accountancy bodies, the Government, the ODCE and the IAASA?

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2. Do you think that there is a need for a greater cooperation between the IAASA, Accountancy bodies and the Government in order to avoid legislation failures such as for example recent section 45 of CA 2003 (Directors' Compliance Statement)?

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3. Do you think that accountancy bodies fully represent the needs of small practitioners?

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4. What do you think small audit practices should do to have their interests better represented at national and international level?

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5. Do you think that auditors from small audit practices are overburdened by regulations?

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6. Most of my respondents stated that keeping up-to-date is the biggest challenge of small practitioners. What does ACCA/CPA/ICAI do to help practitioners adapt to changing reporting regime?

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7. What were the reasons behind an introduction of Continuing Professional Development?

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8. Do you think that CPD meets its objectives?

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9. As there are no de minimis provisions in Irish legislation (Company Law – indictable offences, Anti-Money Laundering legislation), all offences no matter how small have to be reported. Most of my respondents stated that this lack of flexibility has a negative impact on the relationship with their clients. Do you think that de minimis provisions for minor offences should be introduced? What can ACCA/CPA/ICAI do on this matter?

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10. According to annual reports done by the Office of the Director of Corporate Enforcement, there is a low reporting of indictable offences. In your opinion, what are the reasons for this situation?

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11. Some claim that International Standards on Auditing, Anti-Money Laundering legislation are designed for big companies rather than for small ones. Do you think that 'one size fits all' approach is suitable for small practitioners?

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12. Most of my respondents claim that International Standards on Auditing are not suitable for auditing of small firms, because they differ in terms of complexity of audit, the relationship with clients and availability of resources. Do you think that there are any ways to mitigate this burden? What can ACCA/CPA/ICAI do on this matter?

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13. Do you think that small practices should have a separate set of ISAs?

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14. Most of my respondents (small audit firms) see the Anti-Money Laundering regulations as an unnecessary burden. Do you think that it is possible to exempt small audit practices from the Anti-Money Laundering legislation? Do you think that there are any ways to mitigate this burden?

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15. According to research done by Financial Action Task Force (2006), the number of money laundering reports made by all designated professionals is low. In your opinion, what are the reasons for this situation?

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## Appendix V

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## ***Abbreviations***

|         |  |
|---------|--|
| AGM -   | Annual General Meeting                             |
| AML -   | Anti-Money Laundering Legislation                  |
| APB -   | Auditing Practice Board                            |
| CA -    | Companies Act                                      |
| CLEA -  | Company Law Enforcement Act                        |
| CLRG -  | Company Law Review Group                           |
| CJA -   | Criminal Justice Act                               |
| EGM -   | Extraordinary General Meeting                      |
| EU -    | European Union                                     |
| FATF -  | Financial Action Task Force                        |
| FEE -   | Federation of European Accountants                 |
| IAASB - | International Auditing and Assurance Board         |
| IAPC -  | International Auditing Practices Committee         |
| ICAI -  | Institute of Chartered Accountants in Ireland      |
| IFAC -  | Council of International Federation of Accountants |
| ISA -   | International Standard on Auditing                 |
| KYC -   | Know-Your-Customer                                 |
| ODCE -  | Office of the Director of Corporate Enforcement    |
| RGA -   | Review Group on Auditing                           |
| SAS -   | Statement on Auditing Standard                     |
| SME -   | Small and Medium Size Enterprise                   |
| SMP -   | Small and medium audit practice                    |
| UK -    | United Kingdom                                     |
| US -    | United States of America                           |
| TCA -   | Taxes Consolidation Act                            |