

***What are the issues facing small
accounting practices in the North West of
Ireland? An Exploratory Study***

Aisling Lafferty (BBS Hons.)

Dissertation submitted in partial fulfilment of the requirement for the
MA in Accounting in Letterkenny Institute of Technology

Presented to: Anne Burke

Department of Business Studies

Letterkenny Institute of Technology

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Abstract

Businesses all around the globe has been faced with many issues and challenges as a result of the downturn in the economy. This research project focuses in on the rural area of the North West of Ireland to see what issues small accountancy practices (SAP's) are being faced with currently in 2011. The issues that they are currently being faced with are caused by many factors such as the stricter regulations and laws put in place by the governing bodies and as a result of their main clients facing issues also.

The findings of this project show the main issues facing SAP's in the North West of Ireland and discusses the strategies which these SAP's have put in place to try to reduce the impact these changes have on their company.

Abbreviations

SAP – small accounting practice

SME – small to medium enterprise

ICAEW – Institute of Chartered Accountants in England and Wales

CPA - Certified Public Accountants

IFAC – International Federation of Accountants

ACCA – Association of Chartered and Certified Accountants

CDAS – Committee to Develop the Accounting Sector

ICAI – Institute of Chartered Accountants Ireland

CIMA – Chartered Institute of Management Accountants

ISME – Irish Small and Medium Business Enterprise Organisation

ISA – International Standard of Accounting

PWC – PriceWaterHouseCoopers

Acknowledgements

I would like to thank the following for their support:

My family and friends for their encouragement and support throughout the year for the Master of Arts in Accounting programme.

Anne Burke, my supervisor for her continuous guidance and endless help whenever it was required. I would like to thank her for her constant encouragement and motivation to me to complete this project.

My boyfriend Peter, for his continuous support and encouragement throughout the year.

All of the individuals that took part in my interviews and questionnaires.

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Chapter 1 - Introduction

1.1. Introduction

There are many small to medium sized accounting practices in the North West of Ireland, with over 45 in Donegal alone (CSO 2006). This study in research will serve the purpose of investigating the issues and problems facing small accounting practices (SAP's) today.

The North West of Ireland is classed as a "remote" and "disadvantaged" location in Ireland. According to Pobal (a Government body set up to provide support to communities within Ireland), Inishowen is considered one of the most disadvantaged areas in Donegal in relation to employment, social class and population growth. As a result of this it is inevitable that the area will not be affected by the downturn in the economy which the Central Statistics Office (CSO) claimed began at the beginning of 2008.

The economic downturn has hit businesses hard in the area which has resulted in a lot of companies struggling to survive and for many resulted in closure.

As defined in chapter two, SAP's main clients are small to medium sized enterprises (SME's). As SME's are struggling to survive it is important that they get the assistance and support from that of the SAP's. However as a result of SME's struggling to survive throughout the economic downturn, the issues faced by them cause problems for SAP's in turn which is what this study hopes to investigate.

1.2. Research question and objectives

The main research question for this study is:

"What are the issues facing small accounting practices in the North West of Ireland?"

The research question aims to find out what issues SAP's are being faced with currently as a result of the economic downturn. The results will be analysed and will be compared to what previous research has found in relation to problems that exist within SAP's in other areas and countries around the globe.

The study will focus on the small accounting practices (SAPs) in comparison to large practices which are better known as The Big 4 which are very well known today. Recent research has tended to focus more on the wider known accountancy practices such as PriceWaterHouseCoopers, KPMG, Deloitte, and Ernst and Young rather than the smaller practices.

The main objective of this project is to analyse the findings which will be found through conducting interviews and questionnaires with SAP's.

Much research has been done in relation to SAP's, however little recent research has been done since the beginning of the "*recession*" which the economic downturn has become better known as. This project hoped to gather a sufficient quantity of information to define what the main problems are facing SAP's in the North West of Ireland and how they are trying to overcome these problems.

There is much need for this research to be conducted as mentioned above little research has been done in relation to SAP's since the downturn in the economy began and also SAP's in the North West of Ireland do not exist in any previous literature that was sourced.

One of the main advantages of doing this study is that it will be helpful for other SAP's in the local area and also nationwide to see how other SAP's are surviving through the economic downturn. It will also be advantageous in the educational context as students will be able to read about the issues that companies in the financial services industry can face as a result of a downturn in the economy.

It is expected that the SAP's involved in this research will be experiencing the same issues as all involved are of similar size and they all provide similar services to their clients. The SAP's involved are all located within the North West of Ireland, so therefore any geographical factors that contribute to their issues will most likely affect them all.

1.3. Dissertation layout

The project will be laid out in the following format.

Chapter two will look at the literature that has been written previously in relation to SAP's and problems that they have experienced in the past. It will discuss the issues separately and then gives a brief conclusion of them at the end.

Chapter three will look at the methods that will be used to conduct this project. It is hoped that four interviews will be performed with owners of SAP's and it is expected that questionnaires will be sent to fifteen other SAP's in the local area. Although questionnaires are known not to have a 100% response rate, it is hoped that at least 40% of these will be returned.

Chapter four will discuss the findings from conducting the interviews and questionnaires. It is expected that a large quantity of information will be found by conducting the interviews. The questionnaires will give briefer answers in comparison to the interviews so therefore the interviews will contribute mostly to the majority of the content. These will then be compared to the findings from previous literature and similarities and differences will be discussed. A visual aid will be provided in this chapter in the form of a pie chart which will show the main issues facing the SAP's.

Chapter five will be a conclusion of the overall project on what the main findings were and how the overall study went as a whole. Suggestions for future research in the area will also be made in the chapter.

1.4. Limitations of the study

As with all studies and project, there are limitations involved. It is the expected that the main limitation will be that of the time allowed to perform this study. However the quantity of interviews and questionnaires planned have been adapted to suit the time limit involved.

1.5. Research process

Before this work was underway, it was important that a gap in the literature was available to allow this study to be conducted. As mentioned above there is little evidence of studies in this subject area been undertaken in the North West of Ireland, therefore this justified the reason for conducting this research.

It is important that a research project is well planned so that it is conducted and completed within the given time limit. This project is planned out as follows:

The first stage in this project will involve searching for literature that was previously written on the subject area of SAP's and SME's. As little research is known to have been conducted in the North West of Ireland, it is expected that literature from around the globe will be taken into consideration for the purposes of the literature review. The literature will be analysed and compared with other literature of the same subject area.

The second stage in the project will involve conducting primary research. As mentioned in 1.3. it is expected that four face to face interviews will be conducted with owners of SAP's in the North West of Ireland. Due to the time limitation of the study, fifteen questionnaires will be sent to owners of SAP's which haven't had interviews conducted on them.

The third stage of the project will involve looking at the information gathered from the interviews and questionnaires and analysing it to conclude on the main "*issues facing SAP's in the North West of Ireland*".

The fourth and final stage of the project will ensure that a conclusion is drawn up which will be a basic summary of the entire project and recommendations for future research in the area will be provided.

The following is a review of the previous literature found in the subject area.

Chapter 2 – Literature Review

2.1. Introduction and definitions

This chapter looks at the literature which has been found which relates to the subject area of SAP's and the issues with which they have been faced.

As mentioned in 1.2., little research has been done in relation to SAP's in Ireland.

Reviewing the literature has proved difficult and most of what has been sourced is a few years old. However some new recent research has been found.

2.1.1. Small accounting practices (SAP's)

SAPs have been defined by the International Federation of Accountants as “accounting practices whose clients are mostly SME's, external sources are used to supplement limited in-house technical resources, and contain a limited number of professional staff” (IFAC 2010 p10). One of the main reasons for defining a SAP is to distinguish the difference between them and the larger accounting practices which have a national or international presence. Some of the better known larger accountancy practices include PriceWaterHouseCoopers, KPMG, Deloitte and Ernst and Young, which are collectively known as the Big Four.

2.1.2. Small to medium sized enterprises (SME's)

SME's are equally important in the economy. SAP's are advantageous to SME's which has been highlighted by the International Federation of Accountants (IFAC 2010, p7). Bank of England's report on “Finance for small firms” highlighted that SME's account for 37% of private sector turnover and 44% of private sector employment (Bank of England 2004). A study in Ireland in 2005 by DKM Economic Consultants Ltd showed that there was around 233,000 SME's existing that year and it showed that SME's represented 97-98% of the total enterprises in Ireland- with over 210,000 of these having less than 10 employees (per firm).

In 2005, around 54% of the private sector workforce in Ireland was working in SME's- this was an increase of over 75% from that of 1995 which highlights the importance that small enterprises do indeed contribute to the Irish economy. According to the Central

Statistics Office, in 2006 in Ireland almost 750 people worked in the banking and financial services industry (which includes SAP's) in Letterkenny, Co. Donegal, alone (CSO 2006). This information is a few years old and there has been no update made on the information since.

As well as SAP's facing problems in recent years, a survey carried out in 2005 by Tax Strategy Group showed that SME's face problems too. The results of this survey showed that the main problems facing SME's at that time were the cost of doing business, the access to finance and the regulatory burden. The SME's that were interviewed for the survey also included SAP's therefore showing that they are facing these problems too. It is impossible for SME's to start up unless they have access to the necessary finance to get started. In 2011 the ISME released a quarterly report which showed that in the second quarter of 2011 there was a dip in business confidence on behalf of SME's and although the employment prospects were still negative, there was only a slight increase of 2% in job losses compared to the first quarter.

Resulting from the renowned audit scandals such as Enron and WorldCom which took place in the United States in the 2000's, there has been much enquiry into the area of accounting and auditing which has put extra pressure on firms which operate in that area, as they are subject to the risk of ruining their reputation if they perform a bad audit for their clients. The failure of the audit industry in predicting and identifying the banking crises also has led to added pressure being put on these firms- they are now at the centre of many questions (Hopwood 2009).

CPA (USA 2002) stated that many factors such as misstated earnings and unbiased audit opinions can lead the public believing that auditors are not acting independently when in fact they are. The study showed that people's perceptions of auditors are more negative post-Enron. This results in challenges to accountancy firms that have to be overcome

2.2. Issues facing SAP's

2.2.1. Accounting standards and SAP's

The International Accounting Standards Board (IASB) is the body responsible for setting the IFRS's. They have promised to improve the regime of the introduction for SME's by providing some exemptions from using the new IFRS's which they have outlined in their guidelines "IFRS for SME's". The IASB has introduced new standards called "IFRS for SME's" which are less complex and they are designed to meet the needs and capabilities for small to medium enterprises. According to the IASB 2010 the "IFRS for SME's" will benefit the SME's in the long term as they are:

1. More comparable internationally
2. Less onerous
3. Less complicated as there is one set of rules for all
4. More stable

These new standards are resulting in another challenge for SAP's. The IFRS's were introduced to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards and also to take account of the financial reporting needs of emerging economies and small and medium-sized entities.

This presents a huge change for SAP's as not just their standards have to be changed but this will have an impact on the staff who prepare the accounts. For SAP's, these new standards will have a significant impact as the staff within them will have to be educated in the use of these new standards in their day to day work which will in turn increase costs.

A survey undertaken by Grant Thornton 2010, the "International Business Report 2010" showed that Irish SME's (which includes SAP's) ranked 1st globally with highest awareness of IFRS at 86%. Irish SME's also believe that by adopting the new IFRS, they will increase transparency and access to capital (Grant Thornton 2010). It is extremely important that the staff within the accountancy practices get the essential training that is

required to educate them to the highest level on the new standards; otherwise this could pose as another issue for them. 50% of SME's that took part in the survey also expected the new financial reporting standards to facilitate cross border merging and acquisitions. Because these companies feel that they will benefit from the new standards, this in turn benefits the SAP as the SME will not have the sufficient knowledge and experience to produce their accounts in compliance with the new standards, therefore they will have to go to the SAP which gets them more business.

Shortly after the corporate scandals such as Enron and WorldCom were uncovered in the US, a lot of accountancy firms stopped providing many services including the audit of public companies. These firms include New York's Grassi & Co and Brown and Berns LLP. Louis Grassi of Grassi & Co explained the reason for doing so as they did not want to lose their reputation just by doing one bad audit or a bad piece of work for a client. Small accounting practices are faced with this risk also as inaccurate work could cost them their reputation (Accountancy.smartpros.com).

2.2.2. Effects of the economic downturn

SME's and SAP's in Ireland have been affected by the economic downturn (Federation of small businesses in Northern Ireland 2010). A survey undertaken in Ireland recently has shown that Ireland is still optimistic in relation to the economic downturn. Over half the people surveyed are planning to start up their own business. In 2009, 1080 people in Ireland started their own businesses in the midst of a recession (Irish Examiner, 2011). However Jim Power (Friends First chief economist) 2010 said that many small to medium enterprises in Ireland "*are hanging on by a thread*" as they are finding it difficult to get credit off the banks- which presents an additional problem. (Breaking News, 2010)

A report on CPA trend lines in 2009 in the US showed that there was a 3.5% drop in the employment of accountants since the economic downturn began (CPA Trendlines.com 2009). The City Paper, Nashville wrote in 2009 that Accountancy practices were no longer "*recession proof*". They used to be called recession proof as every business needed their tax returns, filing, etc done so accountants were employed to do this. Many

businesses have gone out of practice since the downturn in the economy; therefore there is no longer a need for the accountants to do their books (The City Paper, 2009).

Grant Thornton (2010) "International Business Report 2010" showed that Irish SME's were leading in terms of responding to the economic downturn with:

- 75% of businesses looking at new markets- as SAP's get a lot of their business for SME's, this could prove to be an opportunity for SAP's as they may gain more work from the SME's if they are expanding.
- 66% developing new products and services
- 69% focusing on the skills of their workforce.

It is optimistic to see that small firms within Ireland are looking to the future with positivity. As they are major clients of SAP's, this could benefit the SAP's into the future also in the form of extra work and extra revenue.

Rosenberg (2003) stated that the five key problems facing CPA firms (which include small and large accountancy practices) were as follows:

1. Succession planning
2. Finding and retaining qualified staff
3. Marketing and practice growth
4. Seasonality/ workload compression
5. Fee pressure and pricing of services.

Succession planning- Rosenberg (2003) was insistent that partners did not hire the staff members that were going to buy them out when they retired which poses as a problem for the accountancy practice. It is important that these firms think into the future as well as thinking about the present. Koumbiadis 2009 also stated that importance of hiring good staff as they are the future leaders of the accounting profession. Greg Knight, Senior partner of the Hayes Knight business advisory consultancy, claims that accountants need to be prepared to assist SME's in the future as they are going to need help in the area of succession planning as they have not had to dwell too much on it in the past, but as a result of the economic downturn it is becoming more and more important that all companies, including SME's have a succession plan in place (CPA Australia, 2007).

In relation to marketing and growth, Rosenberg (2003) was sure that firms did not put themselves out into the market enough and they did not think about providing ancillary services that would open their doors to new clients.

Fees are a vital part of a business' existence. Rosenberg's 2003 study found that accountancy firms did not realise that it is better to have low volume and be high priced rather than to have high volume and be low priced. What most accountancy practices do not realise is that if they provided consultancy services to clients they would be able to charge premium rates. Rosenberg (2003) also highlighted the importance to firms in creating a reputation, in order to retain the good staff that they hire as retention of good staff proves difficult in accountancy firms. Accountancy Age's 2008 survey highlighted the effects the recession was having on the bigger firms in relation to staff as 3000 jobs were lost in the top 50 firms in the UK-as a result of the companies trying to cut down on costs. The Big four blamed a slump in the corporate finance market.

Some other issues which Rosenberg (2003) identified include the fact that partners of accountancy firms claim they are too busy and that they lack accountability on behalf of the company. Rosenberg also claimed that there is a failure on behalf of the company to provide the resources necessary such as human and financial resources to act on the firm's goals and objectives.

SAP's are faced with the threat of the Big Four attempting to target the small practices' clients to enhance their own businesses at the detriments of the SAP's. (Walters and Andrews 2003).

Koumbiadas (2009) performed research on the ethical perceptions of newly staffed accountants to see if they were affected by the unethical decisions of key corporate leaders and this research produced some interesting results. One of the key challenges reported for new accountants is the understanding and practicing of good ethics and remaining accountable within the profession.

As Koumbiadas (2009) stated, newly staffed accountants are the future leaders of the accounting profession and it is vital that they help society to understand the ethical practices when making decisions that may influence the future.

According to Marriott and Marriott (2000), small accounting practitioners do not have all the expertise and skills necessary to increase their value to the small firm. They claimed that if small accounting firms were able to provide a management accounting service that is easily understood by the client, then value would be added.

The Financial and Management Accounting Committee (FMAC), which is a body that operates under the International Federation of Accountants, recognised the potential for using financial ratios and graphs to assist the management of SME's to understand their business more easily and many of the accountancy bodies have produced guides for improved financial management within the SME. This information should be taken on board by SAP's as it is important that they understand what SME's want. The FMAC is important, as they focus on the development of accountants and they build public awareness and help people understand the need for the use of accountants (web.ifac.org)

A survey done by CPA (USA) 2002 showed that stress is another issue facing accountancy practices- however the research done in this area is very narrow.

In CPA Australia's survey (2011) "Opportunities and challenges for public practice 2011", some key issues were identified. They believe that smaller accounting practices will be faced with the issue of high-tech drivers of change such as internet, knowledge management systems and automation of financial data handling. Some smaller firms may not have the financial resources in order to exploit the opportunity of investing in high-tech technology, however they must realise that investing in these systems could lead to long term savings. According to CPA Australia 2007, "This will improve revenue flow while delivering business benefits to firms and clients" (CPA Australia 2007, p7).

The report stated that the hiring and retention of good staff will remain a problem for accountancy practices into the long term future. Suzanne Baldry, Baldry Financial Group (2007) said that: "*managing conflicts, managing people, sharing the success financially with your team is important*" which most businesses should be aware of (CPA Australia 2007, p4). It is believed that the hiring of staff could be difficult in the sense that the area of audit is not a "*staff magnet*" according to CPA (2007). The area of tax compliance is

not seen to be an attractive area. CPA Australia (2007) said that the tax and compliance overload is leading to a reduced job satisfaction level among accountants in practice.

CPA Australia (2007) has shown that there is a significant decrease in the number of students progressing to do accountancy degrees which has proved a concern for some practices as there will be a narrow base to choose from in the future.

Greg Knight, Senior partner of the Hayes Knight business advisory consultancy, claims that accountants need to be prepared to assist SME's in the future as they are going to need help in the area of succession planning as they have not had to consider it seriously in the past, but as a result of the economic downturn it is becoming more and more important that all companies, including SME's have a succession plan in place. Other services such as business advisory, sourcing finance and financial planning are expected to be the subject of much demand for clients in the near future. (CPA Australia 2007) They believe a unit of training should be provided to students to develop their skills for working in practice as this is not always obtained throughout their educational years. It is predicted that the client for the future will have a better understanding of the financial and business issues and that they will be looking for value for money services and value added services, not just the standard services that are normally provided by accountants.

2.2.3. Services provided by accountants

Although accountants are facing problems throughout the global economic downturn it may not all be pessimistic. QBE Insurance Group's (2008) study showed that the amount of SME's in the UK using accountant's services in 2009 was predicted to reach a level of 52% in comparison to a level of 28% in 2008.

Nandan (2007) highlighted the importance for SME's having adequate management accounting systems and technicians to better manage scarce resources- he found that these have been lacking in most SME's. It is important that SAP's are aware of this so that they could provide SME's with the services and advice that they need to assist SME's to implement these systems. He reiterated the point that most accountants provide other additional services such as business advice, financial planning and forensic

accounting but implied that this causes problems as most accountants have not been involved enough in the supply of these services- as they feel provision of them carries too much risk. This has serious consequences for the accounting profession as the SME's may go elsewhere for the additional services and also many services such as these are available from off the shelf computerised systems. Factors identified by Kirby and King (1997) that may discourage accountants from providing these additional services include:

1. Accountants rights to provide certain services and reluctance to move out of their comfort zone
2. Risk and competition in providing non-traditional services
3. Narrow book-keeper image of accountants is not compatible with new service demands
4. Lack of resources- human, financial and intellectual

According to Kirby and King (1997), SAP's have been known in the past to let SME's down which presents them with another challenge- one of the areas in which they have disappointed SME's is their lack of knowledge and ability to provide management accounting services which Marriott and Marriott (2000) have undertaken research on- which in turn presents the opportunity for business to solicitors, bank personnel and IT personnel.

They added that SAP's appear to be too busy and too fee conscious to have sufficient time to provide these extra services.

Over the last number of years many packages have been developed which can be bought by companies which allows them to perform many tasks in-house . Examples of these packages in include SAGE, big red book and other accounts production packages. As a result, accounting practices are loosing out on work from present and potential clients who are buying off the shelf accounting packages to do their work.

Marriott and Marriott (2000) showed that 14 out of 15 small businesses used SAGE or other accounting software programmes to produce accounts in house. Out of the fifteen businesses however, only one of them used their accounting software programme to its full potential. This could pose a potential problem for SAP's- maybe as SME's become

more IT literate, they may no longer require the use of SAP's. According to the Accounting concepts and finance website it is "*dangerous for small business owners to assume that they will no longer require regular advice from a qualified accountant or tax advisor*".

Marriott and Marriott (2000) conducted research on the possibility of small accounting practices providing a management accounting service to their SME clients as they feel that the information would be easier understood and analysed than the information that is produced for regulatory and statutory reasons.

The owners and management of SME's require more information to know how the company is doing- this can be done in many forms such as budgets and performance evaluation, which accountants should be able to provide. More difficult forms have been developed since which are harder to understand. Kaplan and Johnson (1994 p2) stated that: "today's management accounting information, driven by the procedures and cycles of the organisation's financial reporting systems, is too late, too aggregated, and too distorted to be relevant for managers' planning and control decisions".

The ICAEW's report (2003 p18) on "Profitable and Sustainable Practice" suggested that accountancy practitioners, especially smaller ones should aim for "up to 60% of their fee income to come from consultancy work or other value added services" other than from the standard compliance services which would not generate as much of an income.

CPA Ireland (2003) showed that the majority of SME's interviewed for their survey stated that they would like their accountant to spend more time explaining the contents of their accounts and financial situation to them as some owners-managers of SME's will not come from a financial background. The survey showed that the people interviewed admitted that they are more willing now than before to ask for advice on other issues, not just compliance issues and the accountant should be in a stable and confident position to provide these services.

2.2.4. SAP and the SME relationship

It is known that one of the main reasons for SME's using SAP's is to comply with statutory audit and taxation matters. (IFAC, 2008; Professional Oversight Board, 2009). According to Blackburn 2010, the relationship between the two parties is "necessary" because "*SMEs need to produce documentation to comply with government regulations, for example audited financial reports, and will turn to SMPs to produce these statements*".

Kirby and King (1997) examined the relationship between SAP's and SME's in North England and found that the expectations of the two groups were not the same. The SAP's understood that they had a strong bonding relationship with the clients but the clients did not feel the same. SME's felt that there was lack of knowledge and understanding of their business on the part of their accountants. It is important that SAP's are aware of this expectation gap and that they put a strategy in place to try and close this gap as they are going to lose out as a result.

Kirby and King (1997) claimed that the capabilities of the SAP's to provide technical advice to SME's was limited to that of the larger accounting practices and this was backed up with an interview by the accounting practices which said that they were undertrained in these other areas.

The main reason identified by IFAC for SME's using SAP's is to comply with statutory and taxation regulations and they learned that SAP's were the first choice of SME's when looking for professional advice.

There are factors which recently contributed to the extra demand for SAPs- one of the main factors being government changes in the regulatory environment and the increasing chance of a statutory audit. In the UK in 2007 it was estimated that SME's spent at least £1.5 billion to help them deal with regulation compliance. Kirby and King (1997) found that the SAP-SME relationship developed as SME's approached the practices for advice on other issues not just accountancy based issues.

The IFAC identified three main reasons for SME's using SAP's. It is important that SAP's are aware of these reasons so that they can build on these and improve their reputation in order to retain existing clients and to gain potential clients.

1. Competency
2. Trust
3. Proximity and responsiveness

Competency:

Most SME's and newer firms do not have the wide range of resources, (and) knowledge and expertise to run the business effectively so they turn to accountants for technical advice and also for the use of provision of services in relation to statutory audits and tax requirements. Most SME's also turn to accountants for financial management expertise. (Robson and Bennett, 2000)

Trust:

According to Bennett and Robson (1999), the take up of clients of non-compliance services is based on trust between the company and the accountant. Trust is seen as being developed through an ongoing relationship and the understanding of the needs and competencies of the company itself.

IFAC discovered trust on part of the accountants is developed through many factors- one of which is them being a member of a professionally regulated body which is known as *institutional trust*. The regulating bodies ensure that their members are educated on new and emerging issues and a specific standard of education and knowledge is required by the bodies before a member can obtain status as a member. Also a *relational trust* can exist through the constant provision of services to the company by the accountant. A *competent trust* exists when the client increases their awareness of the accountants' knowledge and competencies.

A survey undertaken by Marriott and Marriott (2000) showed that many SME's had long standing relationships with their accountants- a survey of fifteen small businesses in total

and the length of their relationships with their accountants ranged from a few months up to twenty eight years. The survey showed that the main reason for the company to change their accountant was if they felt they were not getting value for money.

The majority of the respondents to the survey felt that they were not getting great value for money and that the main reason for them getting the outside accountant to do work was for the benefit of outside third parties rather than for the benefit of the management or owners themselves. Marriott and Marriott (2000) put forward the idea to the participating companies in the survey about their accountants providing a management accounting service which they all agreed would be an advantage; however the possibility of the extra fee being charged turned them against the idea.

Proximity and responsiveness:

A major reason for SME's using SAP's is through their responsiveness to demands by the company. A survey done by Berry et al, (2006) showed that frequently speed of delivery of services by an accountant can be more important to an SME rather than qualification or competency.

The local proximity to their clients also played a huge part in the SME-SAP relationship. Many companies prefer to be able to walk into their accounting firm than communicate through other means- therefore another reason why SME's choose SAP's over the larger accounting practices.

CPA Irelands survey (2003) in Ireland on small and medium sized enterprises showed that 53% of the companies surveyed had been with the same accountant for more than 10 years. The survey also showed that the reason for choosing one accountant over another has changed over the last number of years. Previously the clients would have chosen a practice on the basis of personal ties or location, where now they claim they would chose their accountant depending on the accountant's ability to service their needs, which also presents accountants with another challenge. They must ensure that they are providing a top quality service; otherwise they are open to the threat of losing clients.

Professional service firms, especially the larger ones have been undergoing change over the last decade (Greenwood and Hinings 2002). This is evident in the larger accounting firms, especially when the Big 5 was changed to the Big 4 with the withdrawal of Arthur Anderson as a result of the Enron scandal. As the Big four spread globally, there was more pressure put on them as they were expected to provide additional services on top of their standard assurance services. Clients began to expect more for their fee. As mentioned earlier, SAP's have also been expected to follow suit as clients are expecting more value for their money. As a result, SAP's are expected to provide value added services to their client. This has become even more important as a result of the economic downturn as clients are expecting additional services, such as financial planning and control and bankruptcy which have become more common as a result of the economic downturn.

In March 2011 a meeting of ACCA in Singapore developed a plan that recommended that business advisory services were the only way forward for SAP's. The CDAS also put in place recommendations to the government to encourage and facilitate the consolidation of SAP's into larger units to decrease the element of competition amongst them. The additional services which were recommended to be provided by SAP's include Human Resource advice, IT skills and employment law. The panel in the meeting also advised that SAP's are the first choice of advice by SME's, which gets them ahead of bankers and lawyers.

Chapter 3 - Research methodology

3.1. Introduction

This chapter describes how the information for this project will be collected and analysed to conclude on “the issues facing small accountancy practices in the North West of Ireland”. It will describe the methods of data collection that were adopted throughout the research and the advantages and disadvantages of each and how the data was analysed after it was collected. The methodology is important for this project as it contributed to the conclusion of it – it is important that the data and information are collected and analysed using the appropriate methods. Neely and Cook (2011, p.2) *“Data and information are only useful if it can be used by people within a context to improve decision-making, since it is the environment in which the decisions are made that ultimately impacts the perception of quality”*.

Patton (1990) describes research as *“When one examines and judges accomplishments and effectiveness, one is engaged in evaluation. When this examination of effectiveness is conducted systematically and empirically through careful data collection and thoughtful analysis, one is engaged in evaluation research”*.

3.2. Research aims and objectives

The main research question for this project was:

What are the issues facing small accounting practices in the North West of Ireland? This question aimed to find out what issues small accounting practices are being faced with currently in comparison to what issues and challenges previous research had found. A similar study was completed in North Queensland in Australia which is where the idea for this research originated (Ciccotosto 2008).

3.3. Research paradigms

A research paradigm has been defined in the words of Cohen, Manion and Morrison (2000), *“as the broad framework, which comprises perception, beliefs and understanding of several theories and practices that are used to conduct research”*. There are three main research paradigms which are positivism, interpretivism and critical science.

3.3.1. Positivism

A positivist approach is used to uncover truths or facts using experimental or survey methods. The main goal of positivism is to uncover truths and facts as quantitatively specified relations among variables. (Gephart, R 1999). A positivist approach believes that something should be observed and would be most suitable in the area of science or other related subject areas. Positivism produces more quantitative results and uses a large amount of statistics and measurements which wouldn't be the most suitable approach for this project as it is an exploratory study. A positivist approach to this project was not suitable as it was not a search for facts or figures. It is merely an exploratory study therefore an interpretivist approach was more suitable.

3.3.2. Interpretivism

Interpretivism believes that subject interpretation is the only way that reality can be understood. Interpretivism (which can also be known as “phenomenological approach” to research) is based on the belief that human behaviour isn't as easily measured as that of the social sciences. Interpretivism is based on the principle that the whole area needs to be looked at before a thorough understanding can be made. Interpretivism produces qualitative results for the research; therefore it was the most suitable approach to adopt for this project as it was an exploratory study. As a result of the type of study, it was decided that an interpretive approach is most suitable. Orlikowski and Baroudi (1991) *“Interpretive studies assume that people create and associate their own subjective and intersubjective meanings as they interact with the world around them. Interpretive researchers thus attempt to understand phenomena through accessing the meanings participants assign to them.”*

3.3.3. Critical science

Neill (2006) concludes that critical science *“explores the social world, critiques it, and seeks to empower the individual to overcome problems in the social world. Critical science enables people to understand how society functions and methods by which unsatisfactory aspects can be changed”*. Critical science is used where the researcher is trying to prove their beliefs to be correct. This was not the aim of this study; therefore it wasn't an appropriate approach to take.

3.3.4. Research paradigm adopted

The most suitable approach to this project is an interpretivist approach. As this project is an exploratory study this is the best approach to take as it will fulfil the aims and objectives of this study. An exploratory study (described in 3.3.1) is based on the principles that there are no previous theories or models to work on. This project qualifies as an exploratory study as there was little previous research performed in this area. This approach will generally produce qualitative results which will then be analysed to conclude on the “issues facing small accountancy practices in the North West of Ireland”.

3.4. Research focus

There are three types of research that can be performed which are exploratory, descriptive and explanatory.

3.4.1. Exploratory

Exploratory studies are generally used to “crystallize a problem and to identify information needs for future research”. (MBA Knowledge Base 2011) An exploratory study is based on the underlying principle that little previous research has been done on the area. An exploratory study is used to gain a better and more thorough understanding of existing problems which is what this study is seeking to achieve. It is an exploratory study into the problems and issues facing small accountancy practices in the North West of Ireland.

This project qualifies as an exploratory study for the reason that there has been little previous research performed in the North West of Ireland. A similar study was done in North Queensland in Australia in 2008, however no reference to Ireland was made in the study. The idea for this study originated from that project.

3.4.2. Descriptive

Descriptive research can also be known as case study research and the situation in question is studied to see if it gives rise to any general theories or any “cause and effect”. (Goddard 2007). Descriptive research can integrate the use of qualitative and quantitative

research methods. Descriptive studies will generally be associated with research into the area of “What is?”. (www.aect.org)

3.4.3. Explanatory

Explanatory research has been defined as “*A style of research in which the primary goal is to understand the nature or mechanisms of the relationship between the independent and dependent variable*”. (University of South Florida 1999) This does not match the objective of this study, therefore the reason why it is not described as an explanatory study.

3.5. Research methods and population

A number of methods were chosen to obtain the information for this project. These methods are interviews and questionnaires with the owners of accountancy practices. There are other methods available such as case studies and focus groups, however these were found to be unsuitable for this project. It was decided that these methods were the most appropriate for getting the correct quantity and quality of information to make a decision on the issues facing SAP’s in the North West of Ireland, which was the main research aim for this project.

Due to the time constraints of the project, it was decided that interviews with four SAP’s would be sufficient. These interviews provided the guidance necessary to design the questionnaires which would be mailed out to fifteen SAP’s in the North West of Ireland.

3.5.1. Interviews

There are three different types of interviews which can be performed.

3.5.1.1. Structured interviews

A structured interview takes place where there is a fixed set of questions which the interviewer must ask. A structured interview doesn’t allow any room for changes if a new subject area arises in the conversation which is relevant to the topic. For this reason a structured interview wasn’t suitable for this project. Other reasons for not using a structured interview would include that the study is on an area which could involve a

wide range of issues, therefore a structured interview wouldn't be suitable as a new issue found in an interview could lead onto another area which wasn't thought of initially

3.5.1.2. Semi structured interviews

The type of interview that was chosen is a semi-structured interview. This is a qualitative data collection method in which the researcher is free to use their own initiative in following up the interviewees reply to a question. This method allows the interviewee to introduce other areas of research which may not initially have been planned by the interviewer. This results in the interviewer having a wider and more knowledgeable insight in the research area. There is more flexibility in a semi-structured interview in comparison to a structured interview. Four interviews were held with owners of SAP's in the North West of Ireland, some which have less than five staff and others which have more than ten staff so a range of different issues were found. The interviews lasted approximately 45 minutes each which gave sufficient time to collect the information required. The interviews were tape recorded which was then put down on paper afterwards. Two of the interviewees asked for the questions to be mailed to them prior to the interviews which gave them a better insight into the subject area of the project prior to the interview date. One of the four interviews was conducted via telephone as it did not suit the interviewer to meet at the office as he was out on business so we arranged a telephone interview which was found to be just as effective as the face to face meetings.

The interviews were carried out prior to sending out the questionnaires. The idea behind this was more ideas and suggestions were given by the interviewees which were taken on board by the researcher. The questionnaires were then adapted accordingly.

The results of the interviews produced mostly qualitative information which was then compared with the results of the questionnaires and then analysed to form a conclusion on the issues facing SAP's in the North West.

3.5.1.3. Unstructured interviews

An unstructured interview is where there are no initial questions in place for the interviewer to ask. The interviewer takes a back seat role and lets the interviewee lead the interview which is why an unstructured interview was not chosen for this project. An

unstructured interview was not suitable as there are specific aims and objectives put in place for the project and it is important that these are answered in the interviews- therefore some type of structure was necessary.

3.5.2. Questionnaires

Due to the time limits of this study, it was impossible to hold interviews with all the people necessary for the project, so to replace this, there were fifteen questionnaires distributed to accountancy practices around the North West of Ireland where interviews had not taken place. The questions on the questionnaires were based on the same principles as those for the interviews although they were adapted in a way that shorter precise answers were able to be given, as it is known that people do not spend a great quantity of time when filling in and returning questionnaires.

The questionnaires were mailed out to the SAP's. A reminder email was sent one week later due to the low response rate. The expected response rate for the questionnaires of 40% was beaten by 10%. This is just slightly higher than the average response rate for questionnaires which is 26%. (Hamilton, B Supersurvey) Reasons for the higher response rate may include the phone call given to the practice asking their permission to send it.

The questionnaires had a total of 8 respondents in which all respondents filled out with good detail.

The results of the questionnaires were mostly qualitative information. The information given in the responses was similar to that found in the interviews although the answers were much more precise.

3.5.3. Case studies

A case study could be defined as an in depth analysis of an element. For example: a case study of a country, company or group of people. For the purposes of this project a case study was not suitable as no case studies relevant to this project have been undertaken.

3.5.4. Focus groups

A focus group takes place where a group of people are brought together to give their opinions, beliefs and recommendations on a subject area. Focus groups would be used

regularly for the purposes of market research. A focus group was found to be unsuitable for this project as the time constraints would not allow sufficient time to get one organised especially as the main focus is on SAP's. Therefore it would mean contacting owners of SAP's to take time out of their business to conduct a focus group.

There is a certain element of triangulation which takes place in the research as interviews and questionnaires were used to collect both qualitative and quantitative information. This made the information more reliable as one backs up the other.

3.6. Analysis of information

As this project is mostly qualitative the information was analysed manually. No systems were used to analyse the data. The quantitative information is presented using bar charts and pie charts where necessary. Microsoft excel was used to create the tables and charts necessary.

3.7. Limitations of the research

The following limitations were found in this research

3.7.1. Time limitations – due to the time limitation the research population had to be reduced. However the population was sufficient enough to gather the information necessary.

3.7.2. Feedback – there was a 50% respondent rate to the questionnaires. This was higher than the expected rate but a higher response rate would have been desired.

The questionnaires didn't give as much information as the interviews as respondents gave limited answers. In the interviews the interviewer had the opportunity to ask more questions.

3.8. Conclusion

The quantity of the research performed for this project was sufficient to be able to see the issues facing SAP's in the North West. Although a higher response rate for the questionnaires was desired, the questionnaires which were returned had a range of issues

that made the research more interesting. The issues found were similar to that found in the previous literature which had been written.

Chapter 4 - Data analysis and findings

4.1. Introduction to findings

The following information is the results which were found from conducting the interviews with four owners of SAP's in the North West of Ireland and also from the questionnaires which were returned. All practices interviewed were of the same size, employing from 3 people up to 12 people. Interview A had a slightly different approach to the other interviews, as it is an insolvency practice employing up to 94 employees- with the accountancy department incorporated into that employing 3 people. Company A had many different departments which made up the one company – they provided many services such as accountancy, bankruptcy, debt management, individual voluntary arrangements (IVA's), corporate insolvencies, liquidations, company voluntary arrangements, creditors liquidations and administrations. As this company was larger than the others interviewed it gave a wider insight into the issues that have faced the other departments in this company as well as the issues that faced the accountancy department.

4.2. The main issues found facing SAP's in the North West of Ireland

4.2.1. Fee Collection

There are many similar themes that exist within each practice which have been found from undertaking the interviews and sending out the questionnaires.

The most common issue that the practitioners found facing their business' was the collection of fees which originated as a result of the economic climate which has caused businesses to slow up and for some to even close down. As the main customers for SAP's are SME's, this has caused reduced business for the SAP's. Many SME's have been forced to close down over the last number of years which in turn affect's the SAP's which do their work. A report issued by ISME in 2011 showed that late payments by customers have caused many SME's to close down. *“When smaller businesses are not being paid on time, they cannot in turn pay their suppliers and the vicious circle ends with the smallest and most vulnerable being forced to close down”*. Interviewee D found fee collection extremely tough and because he knew a lot of his clients personally on a

social basis he did not want to put extreme pressure on the clients for payments. To try to reduce the impact of the issue for himself and to reduce the impact of the expense for the client, he has offered all his clients the option of paying via Standing Order which means that they can pay their fee's over the space of twelve months. He found that this option brought more clients to his firm as most local practices don't offer this service. He also introduced a system with his clients which allows them to mail all their paperwork to the accountant and in turn saves the client administration and postage costs.

4.2.2. Role of the accountant

In each interview the partner of the accountancy practice was interviewed. When asked about the changes that his practice has experienced recently, Interviewee A found that the accountant's role is changing rapidly as they are now becoming a shoulder to cry on for the client, as most clients appear to be struggling financially over the last couple of years. Interviewee C mentioned that the business model of the accountancy practice has changed in the sense that the practice is now focusing on the survival model whereas before the downturn in the economy they were focusing mainly on the growth and wealth maximisation model. *“Our company has to adapt rapidly to the changes in the economic environment, as before we focused a lot on advertising our services and growing our client base whereas now, our sole focus is ensuring that the company and our clients survive this downturn”.*

Interviewee B found a different issue experienced by him to that of the others. He found that there has been more compliance expectations over the last few years which arises as a result of more complex accountancy and auditing standards introduced by the IASB. This in turn increases the costs such as training and system costs for the company and in turn reducing their overall profit. This puts pressure on the client as there is more work for them to do prior to handing their work into the accountant to get completed. There is also an increased expectation of clients to hand in more information which in turn creates more work for the accountant and this is done for the same fee. The added work can be done with lesser difficulty by the client at present as there are more off shelf packages which the client can buy to produce the necessary information to hand over to the accountant to be finalised.

4.2.3. Off shelf accountancy packages

Previous research by Marriot and Marriot 2000, has shown that 14 out of 15 small businesses were now using off shelf accountancy packages to produce accounts in house – which could prove a threat to the SAP's. Research done locally proved very different as all persons interviewed didn't feel that there was a threat from these accountancy packages. All interviewed and questioned found them to be an advantage to the accountant with Interviewee C quoting *“No – off shelf packages may reduce the book keeping aspect of completing a set of accounts. This may reduce fee income for practices, but is unlikely to reduce profits as book keeping services offered by accounting practices are merely cost recovery due to high costs of doing business in Ireland. We welcome any client who does their own book keeping as it frees up our time and the fee that we can charge to look at business strategy, profitability and tax planning. In other words we can provide more high value services which are more beneficial to the client and are more profitable to us than book keeping services. A book keeper in any accountancy practice takes up the same amount of overhead as a qualified accountant in respect of computer costs, office space, stationary and insurance. The only saving is in reduced wages. The book keeper may be costing 70% of what a qualified accountant costs, but may only be generating 50% or less of the revenue that a good accountant will generate. As such overall fee income may be reduced by clients doing their own book keeping, but practice profitability will have increased”*. He concluded by saying that *“no computer package will ever replace a good accountant”* which seems to be the attitude of all questioned in this research.

Interviewee A's response was in harmony with the previous saying that the introduction of accountancy packages has alleviated some of the work off the accountant as the client can now hand them a draft of their journals, rather than handing them a large amount of paper work which can be challenging to analyse in a small time frame.

70% of respondents to the questionnaires were in agreement with that of the interviewee's and said they felt no threat from the off shelf accountancy packages with one respondent quoting *“We feel no threat from them. The law is still too complex for the average taxpayer to understand the ins and outs of it and the self assessment system*

means that you have to get it right first time or you face the possibility of paying a fine to the Revenue. Most business people accept the idea of specialisation. They concentrate on what they know best and leave the accounting and tax returns to the experts. Mistakes can be costly.”

The other 30% said that they did not find it a huge threat to their business, however they felt that clients may decide in the future to take advantage of the system put in place and get an internal member of staff trained to do the work for them which would reduce the need for an external accountant.

4.2.4. Accountancy standards and the regulatory bodies

Over the last number of years, the introduction of new auditing and accountancy standards has taken place. This has caused many consequences for businesses in Ireland as they have to adapt and adhere to these new standards.

Interviewee C and 20% of the questionnaires returned mentioned that compliance was becoming a bigger issue due to the introduction of the new accountancy standards.

Although the “IFRS for SME’s” have been introduced for small to medium sized enterprises in Ireland to try to reduce the impact of the new standards on SME’s, it is a challenge they are being faced with today. It was mentioned during an interview with an SAP also that there is more pressure applied to SME’s in Ireland nowadays also as there are the same amount of business inspectors from the regulating bodies for a diminished number of businesses; therefore there is a higher probability of getting inspected.

Interviewee B also admitted having increased compliance by the regulatory bodies as there are costs involved with compliance such as staff training costs and system costs which in turn reduce the overall profit for a SAP whose income has already been reduced as a result of diminishing trade. However Grant Thornton 2010 “International Business Report 2010” showed that SME’s (includes SAP’s) in Ireland were ranked 1st globally with the highest awareness and knowledge of the new IFRS for SME’s. The report also highlighted that as a result of adopting the new standards it will increase the transparency and access to capital for SME’s in the future as their financial reports and accounts will be readily comparable with that of their global counterparts which in turn creates more revenue for SAP’s.

There is also a major cost for SAP's to be a member of a regulatory body, with the main ones in Ireland being ACCA, ICAI and CIMA. There is a membership cost which must be paid each year, however all parties interviewed felt that the membership fee was worth the expense incurred. All interviewees felt that the fee reaped many benefits such as good advisory and support services which are necessary over the last number of years for survival. Interviewee C who is a member of ACCA felt that the changes in accountancy standards and regulations added an increased cost to the practice as there is a bigger workload in deciding which reporting framework to use. *"It is then difficult to pass this additional cost onto the client who is trying to survive, as they see no added benefit"*. Interviewee A who is a member of ICAI found that the fee was necessary for the company as they need to be a member of the body to be regulated which benefits the company in turn to gain business and clients. One of the respondents to the questionnaires felt that it was worth paying the fee to the regulatory body, however he felt that the ISME was much more useful they provided more *"timely advice and support"* than the ACCA.

From a client perspective, interviewee C mentioned that the statistics have changed dramatically over the last two to three years. New business registrations used to outnumber deregistration by 5:1. Now the figures are completely reversed.

30% of the questionnaire respondent's said that the new accountancy standards did not affect their company a lot as most of their clients are small family businesses which are entitled to the audit exemption, therefore the auditing standards do not play a big part in their company. As many smaller companies are not limited companies they will not be affected by the new ISA's which have been brought into play over the last number of years.

4.2.5. Seasonal workload

Seasonal workload has posed a bigger problem to the SAP's questioned as a result of the economic downturn. One of the main reasons behind this is due to the reduction in staff numbers, therefore when there is a seasonal demand in the job (Eg: tax due dates, etc) there is more pressure on the employees which can put extra pressure on the workers.

This also poses the threat to employers for trying to retain their qualified and experienced staff. The three SAP's interviewed used their planning skills in order to reduce the element of seasonal workload within their practices. *“Seasonal deadlines are managed by planning well in advance and balancing the workload over the available period allowed to file certain returns. For example, sole trader tax returns must be filed by the 31st October each year. We start filing them in January and balance the workload between that and October”*. After the deadlines have passed there is additional time and this is used to get ahead on the next seasonal workload.

Interviewee A believes that a good relationship and strong communication with the client is the key to overcoming the pressure of the seasonal workload, especially around the time of tax deadlines.

4.2.6. SAP-SME relationship

The question was asked in relation to the SAP-SME relationship to investigate whether accountants believe it is important to have a good relationship with their clients. Previous research had found that one of the issues facing SAP's was the non-existence of a strong relationship with their clients. However 100% of respondents and interviewees believed that a good relationship with their clients is the key to good business with one respondent commenting *“Clients must feel they can trust you 100% to act in their best interest. Once trust has been established, all facts of the case may be put on the table and the correct course of action decided upon. I like clients to know that while the relationship is friendly and personal, it is always professional and thorough to the end.”*

Interviewee B insisted that because his company was of a smaller size, that his relationships with his clients was very personal and he believed that it is key to his business to sustain a solid relationship with his clients. Interviewee A's response agreed with this. He explained that the majority of their clients were friends of the family that owned the business, therefore there was a personal element involved with the clients socialising with them on an occasional basis. 100% of the respondents to the questionnaires agreed that it was vitally important to have a good relationship with the client, with one quoting *“We wouldn't exist without the client; therefore we have to ensure that they are happy with our services. Good communication is the key”*.

4.2.7. Providing additional/value added services to the client

Previous research showed that some SAP's were reluctant to provide additional services to the clients other than the standard book-keeping and accounts production as they didn't feel that they had the expertise and knowledge to do so. One interviewee quoted *"We provide all additional services such as business advice and financial and taxation planning. Some additional services especially forensic accounting are avoided as they usually involve some form of conflict between business partners such as husbands and wives in divorce cases and as such can create bad feeling by one or other parties in the dispute which can create a negative image for a practice in a smaller town. Some services to regulated clients such as credit unions and solicitors are avoided as the fees generated are not adequate to cover the additional regulatory work and reporting requirements that are involved in the workload. As such it is not always the case that practices don't have the expertise to offer additional services, rather a strategic decision may have been made that it will be unprofitable to offer some additional services"*. Both of the other interviewees were in agreement and implied that they have no need to offer forensic accounting services as their clients are mainly small to medium sized companies, so there would be no market for this type of work, especially as a result of their geographical location.

PWC's Irish Family Business Survey 2010 showed that the main challenges experienced by SME's in Ireland were cash flow and controlling costs. SAP's should see this as an opportunity to offer cost controlling advice to their clients.

100% of respondents to the questionnaires claimed that they do provide additional services other than the standard, however they also felt that there was no real necessity for them as most of their clients are SME's and therefore don't require the use of forensic accounting for example.

4.2.8. Staff retention

Previous research found that the retention of qualified and experienced staff was a problem that accountancy practices faced. This related more to the larger accountancy practices. Unfortunately it hasn't seemed to be a problem in the North West of Ireland as

all respondents were in agreement that no new staff had been hired in the last number of years as a result of the downturn in the economy. Most of the business of the SAP's in the North West came from the construction industry which has almost come to a halt recently, therefore SAP's have no necessity to hire new staff. *“Unfortunately over the last number of years we have not needed to recruit and there are many good CV's coming in through the door. Since 2008 the construction industry here started to slow down and that is where we got most of our business from”*. 60% of the respondents had reduced their staff numbers in the last number of years and 40% of the SAP's staff numbers remained constant.

4.2.9. Succession planning

Rossenberg (2003) previously stated that one of the main problems facing accountancy practices, both large and small was the element of succession planning. He insisted that partners did not recruit the staff members that were going to buy them out once they retired. When asked about succession planning there were many different responses. Interviewee A said that as their company is a family business and they have been operating for over 75 years, they have an idea about what is going to happen within the company due to internal and external forces. The senior positions within the company have been taken by the sons of the proprietor. There are also four Insolvency Practitioners within the company and they also play a lead role in the running of the company.

As Interviewee B's practice is much smaller he said that at this stage and in the current economic situation “minimal consideration is given to succession planning”. However he didn't rule it out for the future and advised that ACCA gives great guidelines for continuity planning for sole practitioners. Around 50% of the questionnaire respondents said that succession planning was taken into consideration in their practice and when hiring staff, there were certain criteria that had to be met.

4.3. Strategies introduced to overcome these changes

As with all changes, it is important that plans and strategies are implemented to try to reduce and overcome the effects that the changes have on the company. When asked

about the strategies that have been put in place to reduce the impact of the changes, a variance of responses was received. Interviewee A has taken a proactive approach in fighting the economic downturn to try to reduce the impact of the changes affecting the practice. They have recently begun making presentations to LEDU which is a business start up organisation that works alongside Invest Northern Ireland. LEDU offers new companies in Northern Ireland advice and support to get their business up and running. They also offer supporting services to existing companies in Northern Ireland who are looking to expand. The company in question offers many services such as Insolvency, Debt Management, Accountancy, Bankruptcy, etc so they have many different services to offer. They make presentations to LEDU on an ongoing basis to advertise and promote their company and the services that they provide. Since the presentations began they have noticed an increase in the volume of enquiries for their financial planning and business advice services. The company also advertises their services online. They have a contract with the biggest search engines on the internet in which they pay the search engines to increase their traffic to their sites. *“For example if somebody typed in “company debt” our company would appear in the top five on the list as it is related to the services we provide”*.

Interviewee C is taking another approach to the challenges facing his SAP and is working in the best interests of the client. This SAP is looking at what the client can afford to pay them and is doing as much work for the client to fit this fee. He explained that this way his clients are grateful for this and they are more encouraged to stay as they feel they are getting value for money. He also provides additional services to clients free of charge such as business survival and other advisory services, which is a necessity for most clients over the last number of years.

As mentioned above in 4.1 Interviewee D put in place a standing order system with his clients which gave them the option of paying their fees over a twelve month period. This reduced the burden of the accountancy fees on the client, and he felt that this benefited his practice as not many local practices offered this service.

Interviewee B found that more compliance was the biggest issue facing his practice. In order to overcome this he is constantly updating his systems and sending the staff to

ongoing training courses so that they are able to deal with the clients to the best possible standard. This is important so that they are knowledgeable on the new standards and expectations that have been put into place.

4.4. Conclusion

From undertaking interviews and questionnaires, it appears that the issues facing SAP's are similar to the issues that were identified throughout previous literature which involved SAP's in many different regions. The economic downturn has certainly caused many problems in SAP's especially in relation to jobs, collection of fees and retaining clients. Much of what was found in previous research is in agreement with what has been found in the North West of Ireland.

The SAP's that took part in this research all exist within the one area. The issues that have been found appear to be affecting all of the practices involved which is more than likely a geographical factor. All respondents mentioned that construction used to be their biggest contribution as most of their clients worked in the construction industry. A lot of the construction companies that existed in Donegal have now ceased to trade as a result of the reduction in work and also as a result of not obtaining money for previous work done and therefore owed to them. This has been improved over the last number of months as CIF (Construction Industry Federation) has launched a Payments Recovery Assistance Programme in Donegal which will assist the traders to obtain monies for work carried out. *“CIF member companies have always worried whether the cost of chasing the money that they are owed will outweigh the end benefit. With this programme they can be assured of value for money”*.

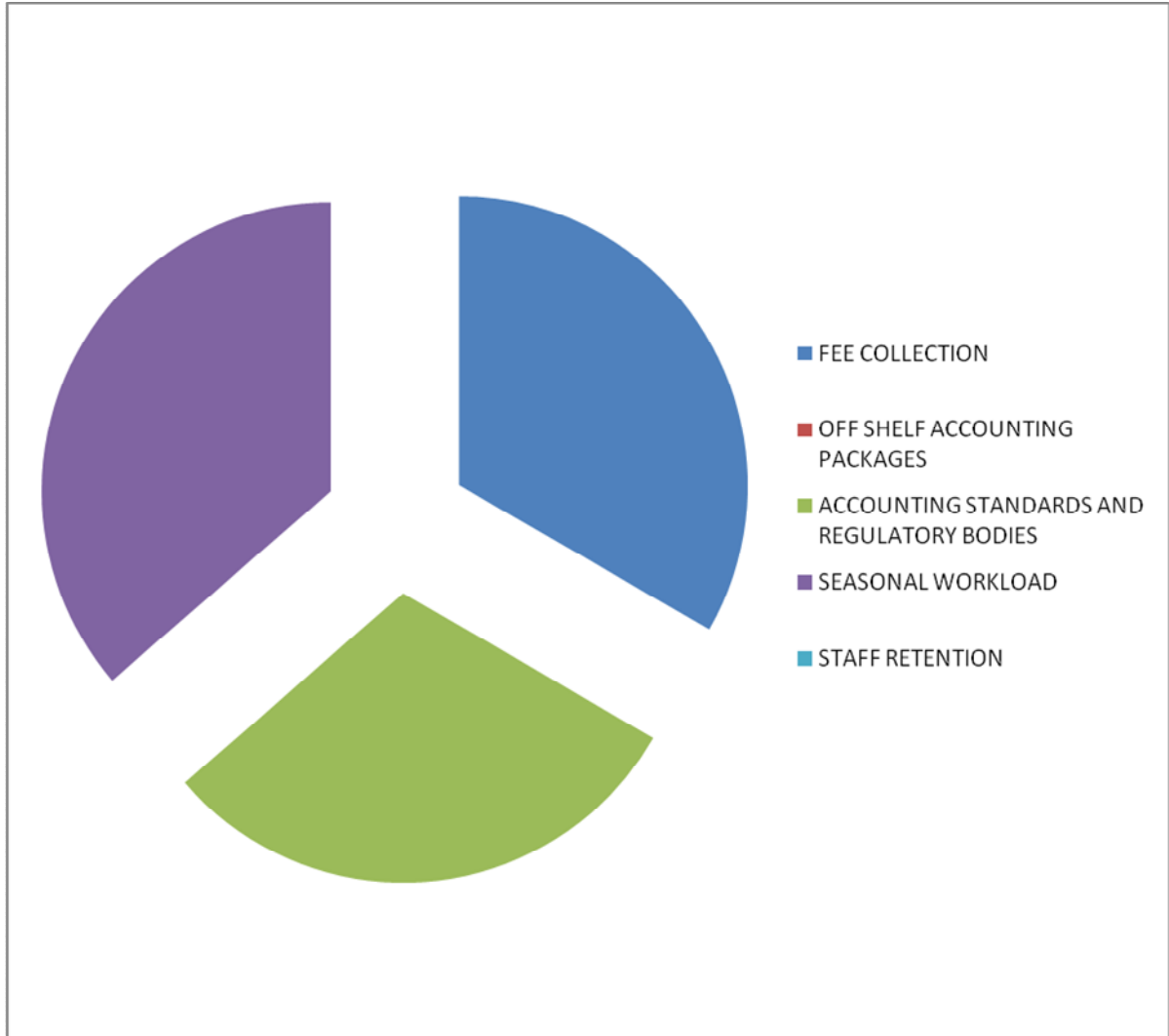


Figure 1.1

The above pie chart summarises and shows the main issues that the SAP's were experiencing. While asked about the issues that previous literature had mentioned, some questioned didn't experience them as an issue. For example as is evident by the graph above, nobody involved in this study felt a threat from the introduction of off-shelf accountancy packages.

Previous literature has shown that staff retention was a big issue. However it was expected that the issue in question would not be a problem nowadays as a result of the downturn in the economy. The issue for SAP's nowadays in relation to staff is that they are trying to downsize rather than trying to hold onto staff members.

Chapter 5 – Conclusions and recommendations

5.1. Summary of the main findings

Over the last number of years resulting from the economic downturn, businesses have faced many obstacles and challenges. The people that are being hit the hardest appear to be the SME's in Ireland owned by families. This could be as a result of the companies' geographical location as smaller companies would tend to be located outside of Dublin and Dublin still stands to be the corporate centre in Ireland.

PWC's Irish Family Businesses Survey 2010 which involved mainly SME's showed that the economic downturn has hit Irish family businesses nearly twice as hard as it has hit their global counterparts. A good example of this being that Irish family owned businesses have seen their overall operating profits drop by over 70% in one year in comparison to their global counterparts experiencing only a drop of 33%. However despite the negative results, 30% of these businesses are expecting growth in the next year. In the same survey 77% of Irish SME's would like to have a simpler tax regime introduced by the government.

Below is a list of the main issues found in this study to be facing SAP's in the North West of Ireland, which will be elaborated on further down.

1. The introduction of off shelf accountancy packages
2. The provision of the standard accountancy services
3. The accountancy standards and regulatory bodies
4. The SAP-SME relationship
5. Seasonal workload within the SAP
6. Fee collection

While the SAP's interviewed and questioned in this research mentioned the problems and issues that they were facing none of those involved appeared to be struggling to survive. Although SME's are struggling to cope financially, there will always be the need for an accountant. One respondent mentioned that the tax system is still too complex for an average business person to understand the ins and outs of it without the help of an

accountant. Although business has slowed down as a result of the economic downturn the prospects for the future of SAP's in the area still remain high.

Many issues that were found throughout the interviews and questionnaires were similar to what was found in previous literature although no previous research was done in the area of the North West of Ireland.

Previous literature showed that 14 out of 15 SME's used in house accounting software to produce their accounts which could pose a threat to SAP's in the long term. CPA Australia's survey in 2011 "Opportunities and challenges for public practice 2011" believed that over the next number of years SAP's would be faced with many challenges by the introduction of more advanced computer systems and knowledge management systems. After conducting interviews and questionnaires none of the SAP's involved felt a threat from the introduction of these systems. Similar to above, they felt that the law was still too complex for the average business person to fully understand it; therefore there was still the need for an accountant. One interviewee insisted "*no computer package will ever replace a good accountant*" which appears to be true as accounting software became popular in businesses in Ireland at the beginning of the millennium and accountants have not viewed it as a threat yet.

Findings from the study completed in North Queensland in 2008 showed that at least 60% of a SAP's income derived from the provision of the standard tax and accounting services. This is similar to the SAP's in the North West of Ireland as although no precise percentage was given, all involved in the research claimed that the majority of their income came from the standard tax and accountancy services. Kirby and King 1997 claim that in the past SAP's have been known to let SME's down with the non-provision of additional services. Research in the North West of Ireland has shown that SAP's do provide many additional services such as financial and taxation planning to their clients, however a service such as forensic accounting has been found to be "*unprofitable and unnecessary*" in the North West. All interviewee's insisted that their staff had the ability to perform these additional services. One interviewee claimed that it was a strategic decision not to offer the service of forensic accounting as the "*fee's generated from*

providing the service wouldn't be sufficient to cover the additional regulatory work and reporting requirements".

All accountancy practices are required to be a member of an accountancy body which requires paying an annual fee. This fee can be a burden on the SAP especially if they feel that they are not getting value for money for paying this fee. The majority of the parties involved in this research felt that the fee was worth paying as they got much necessary advice and leadership from the regulatory bodies. Accountancy standards also play a huge role in relation to accountancy practices. It is vital that all practices are aware of and trained in the appropriate standards as it is a legal and regulatory requirement for both the accountancy and the clients producing the accounts. Regulation is getting stricter over the last number of years and especially post Enron and the other renowned financial scandals, therefore SAP's have the burden and expense of training their staff to the highest of standards to ensure that they are in harmony with regulation.

A study performed by IFAC found that the SAP-SME relationship was important. All persons that took part in this research agreed that it is extremely important to have a good relationship with the client. IFAC identified trust as one of the main reasons for SME's using SAP's. All interviewees mentioned that trust is the most important element in the relationship with clients as they are working in the best interests of the clients.

All involved in this research believed that it was extremely important to have a good relationship with the client. One of the main reasons for such strong relationships with the clients may be due to the close proximity of the clients to the practice as most involved said that their clients were all local to the area. As the North West of Ireland is classed as a remote area in Ireland, people within the small towns have good relationships. One interviewee admitted that the majority of their clients were friends of the proprietor of the SAP. They have been clients of their practice for years, although he said when it came to work related criteria the relationship was kept professional. One interviewee said that if you do not have a good relationship with your clients then you will not have any clients as that is the most important aspect of any accountancy practice. However, this could be challenged if the firm provides auditing services, as one of the main expectations of the auditor is that they remain independent in their work although

none of those involved in the study mentioned that they had the certificate to perform audits.

Another issue which appeared throughout the research was the element of seasonal workload that existed within the SAP's. The busiest times for accountancy practices of any size would usually occur around January 31st and October 31st. The participants in the research found that the element of seasonal workload has increased as a result of the economic downturn. This came as a surprise as it was imagined that as a result of the reduction in client numbers there would be a lighter workload. However the SAP's believed that there was a larger pressure around deadlines as there is a lot of work to be done with a reduced number of staff. They believe that in order to reduce the effects of the seasonal workload it is extremely important to keep in regular communication with the clients. Since the introduction of accounting software packages, it has become easier for the SAP's as clients are able to hand them a set of journals rather than handing them a mountain of paperwork. So there is an advantage to these systems also.

Fee collection also came across as an issue that faced the SAP's however it was not put across as the main issue for all who took part in this study. The SAP's have had to accept over the last number of years that the clients are struggling and therefore are adapting their work to suit the SME's to the best of their ability. For example one SAP has put in place a standing order payment option for the clients which means that the clients are able to pay their fee over the space of a twelve month period. This ensures that the client is able to pay the fee and it eases the burden on them as they do not have a lump sum payment at the year end. The client is aware that the SAP is working in their best interests and therefore the client will be encouraged to stay with this practice.

The SAP's have had to implement strategies and plans into their businesses in order to overcome these issues which seem to have produced satisfactory results as none of the SAP's that took part in this study appear to be struggling to survive.

5.2. Benefits of this research

This research has proved worthwhile and will be beneficial to many parties. Half of the SAP's that took part have asked that they get forwarded a copy of this project after it has

been completed. One SAP's reason for this is "*I think it will be interesting to see if other SAP's in the local area are experiencing the same issues that I am and to see how they are coping with these problems*". Students and lecturers who are interested in this area of study will also have the benefit of being able to envisage that issues that are facing SAP's in the local area. Perhaps in years to come after the country has overcome the recovery process, it would be interesting to look at how the SAP's managed to survive the economic downturn and if they would do anything differently if the same situation were to arise again in the future.

5.3. Suggested future research

The information that was found through conducting research in the North West of Ireland proved very interesting. A lot of prior research that has been carried out in this area has been done so in other countries such as the USA and Australia, which seem to be the most popular for research. However Ireland has been badly affected by the downturn in the economy and it is believed that if more research was conducted by bodies such as CSO or the accountancy bodies, they may be able to come up with a strategic plan to assist the SAP's in the country to overcome these challenges which they are now facing.

Another interesting area of study for the future would be "*the attitudes and changing expectations of SME's towards accountants and SAP's*". There has been some previous research into the expectations of SME's from SAP's, however no previous research has been conducted in Ireland in this area. As the majority of SME's are struggling to get through the recession it would be interesting to see if they have the same expectations of them nowadays as they did before the downturn in the economy began. From interviews and questionnaires, it is evident that accountants are trying their best to provide their clients with as much assistance as possible for a small a price as possible, however it would be interesting to see if the SME expects more than that.

Throughout this study a high quantity of literature and prior research was found in relation to male domination in the accountancy industry. Some of the articles read were found to be interesting in their findings. There appears to be a larger quantity of males employed in the accountancy industry in comparison to females. Similar findings

appeared in the research for this project as all of the partners that were interviewed and questioned for this project were male. There may be many reasons for this and it could be a result of the salary increase for male accountants. A survey released by the ICAEW showed that male accountants earn almost 50% more than their female counterparts. According to the Managing Director of Robert Half, a financial recruitment consultant in England “*the study does highlight a disparity that needs to be addressed*”. Therefore, this area would appear interesting to investigate to see if there are any reasons contributing to the higher percentage of males to females in the industry.

5.4. Limitations of the research

The main limitation found in this research project which was mentioned previously was the time limit to conduct this study. A wider sample size would have produced more thorough and precise results, however due to the time limit the sample size had to be reduced to what was originally planned. However for the sample size chosen the quantity of information that was received was substantial and helpful to contribute to the main objective of the study.

This study was certainly worthwhile as the main research question was answered which was “What are the issues facing small accountancy practices in the North West of Ireland”.

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Appendix 1 – Email cover page

Following our telephone conversation earlier requesting your permission to forward this please see below.

My name is Aisling Lafferty. I am currently studying for a Master of Arts in Accountancy at Letterkenny Institute of Technology. As part of the course a dissertation must be submitted. The topic I have chosen for mine is “What are the issues facing small accountancy practices in the North West of Ireland?”

In order to achieve the objectives of my study I have decided to send out questionnaires to owners of sole practitioners in the area of question. I would appreciate it if you would take the time in filling out this questionnaire.

I can assure you that all information obtained will be treated in the strictest of confidence and all parties involved will remain anonymous. The information obtained will be deleted once recorded.

I look forward to your reply.

Thanks in advance,

Aisling Lafferty

Appendix 2 – Questionnaire

1. How many employees work in the firm?
2. What is the position of interviewee?
3. What is the main type of work provided by the firm?
4. Have you noticed any changes in your practice over the last number of years? If so, could you list them?
 - A.
 - B.
 - C.
5. What strategies have you implemented to try and overcome these changes?
6. What accountancy body is your company a member of? Is it worth paying the annual fee?
7. Have the introduction of new accounting and auditing standards affected your practice?
8. Do you feel a threat from the introduction of off shelf accounting packages for clients over the last number of years?
9. Do you find it difficult to recruit and retain qualified and experienced individuals to fill positions within your company- what strategies have you implemented to encourage them to stay?
10. What other additional services do you provide other than accountancy?
11. Is there an element of seasonal workload involved in your practice- how do you cope with this workload and how do you co-ordinate staff in the quieter periods?
12. I found through research that some firms can be reluctant to provide additional services to clients such as business advice, financial planning, forensic accounting- do

you advertise or encourage clients to get these additional services off you or do you not believe that your staff have the expertise and knowledge to provide these services?

13. Do you think that it is important to have a good relationship with your clients? If so, why?

Appendix 3 – Interview Guidelines

1. How many employees work in the firm?

- staff employed (full and part-time)
- size of firm

2. What is the position of interviewee?

3. What is the main type of work provided by the firm?

4. Have you noticed any changes in your practice over the last number of years? If so, could you describe them?

- Impact on fees/fee collection?
- Impact on bad debts?

5. Did you predict these changes and issues?

6. What strategies have you implemented to try and overcome these changes?

7. What accountancy body is your company a member of? Is it worth paying the annual fee? If so, why – If not, why not?

8. Has the introduction of new accounting and auditing standards affected your practice? If so, in what ways?

9. I found through research that the introduction of off shelf accountancy packages have affected the work intake of some practices- has this been the same for you? Do you feel a threat from them?

- Do you feel that individuals and companies will do most of their own work now using off shelf accountancy packages?

10. What other additional services do you provide other than accountancy?

11. Has your firm considered succession planning/practice continuation within your company or has this been kept to a limit as a result of the economic downturn?

12. Do you find it difficult to recruit and retain qualified and experienced individuals to fill positions within your company- what strategies have you implemented to encourage them to stay?

13. Is there an element of seasonal workload involved in your practice- how do you cope with this workload and how do you co-ordinate staff in the quieter periods?

14. I found through research that some firms can be reluctant to provide additional services to clients such as business advice, financial planning, forensic accounting- do you advertise or encourage clients to get these additional services off you or do you not believe that your staff have the expertise and knowledge to provide these services?

15. Do you think that it is important to have a good relationship with your clients? If so, why?

