Quality Assurance monitoring of Accounting Practices: Adding value for the client or adding cost to the firm?

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Declaration

Disclaimer 1

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Abstract

This thesis looks at how the accounting industry is regulated in Ireland. It looks at the legislation regarding the supervision of the industry and the bodies which are responsible for that supervision. It specifically looks at how accountancy firms across the country are monitored in terms of quality assurance. The effectiveness of the monitoring process is examined in order to discover how the current regulations impact on firms and what this means for the clients, those who need to have confidence in the quality of service that they are getting in order to successfully run their businesses at this time of economic recession.

In order to conduct the research, the author decided that an interpretive philosophy was most appropriate because it would allow for a flexible approach to be taken when collecting the data. The data was collected by conducting in depth semi structured interviews which allowed the author the flexibility and opportunity to adapt to changes in direction whenever necessary.

The results, based on interviews with accountants and those who monitor and supervise them, show that the monitoring process in regulatory areas such as auditing are effective. Professional accountants are very open and receptive to the monitoring process, are willing to learn and want to serve their clients as best they can. The study does however show a gap outside of the regulatory areas where monitoring is not mandatory for those who are performing accounting tasks but are not members of one of the professional accountancy bodies. As the level of non-regulatory work is increasing, this research highlights some of the challenges facing accountants and those who supervise the industry in the future.

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List of Abbreviations

ACCA	Association of Chartered Certified Accountants
AIA	Association of International Accountants
AICIPA	American Institute of Certified Public Accountants
CEO	Chief Executive Officer
CIMA	Certified Institute of Management Accountants
CIPFA	Certified Institute of Public Finance & Accountancy
CA	Competition Authority
CPD	Continuing Professional Development
CRO	Companies Registration Office
EU	European Union
FRC	Financial Reporting Council
IAASA	Irish Auditing & Accounting Supervisory Authority
ICAEW	Institute of Chartered Accountants in England & Wales
ICAI	Institute of Chartered Accountants in Ireland
ICAS	Institute of Chartered Accountants in Scotland
ICPAI	Institute of Certified Public Accountants in Ireland
IFAC	International Federation of Accountants
IIPA	Institute of Incorporated Public Accountants
PAB	Prescribed Accountancy Body
PCAOB	Public Company Accounting Oversight Board
PIE	Public Interest Entity
PII	Professional Indemnity Insurance
POB	Professional Oversight Board
QC	Quality Checked
RAB	Recognised Accountancy Body
SMOs	Statements of Membership Obligations
UK	United Kingdom
USA	United States

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CHAPTER ONE

INTRODUCTION

CHAPTER LAYOUT

Chapter One: Introduction

1.1 Introduction

Starting a new business enterprise can be a daunting affair particularly in the current economic climate. Statistics vary, but indicate that up to 50% of new businesses fail within the first five years (Shane, 2008).

The figures in recent years during the existing recession in Ireland are also startling with eight failures per day currently among existing businesses (Richardson, 2012). There are many reasons given for business failures but a lot of these reasons may be classified under poor planning (Goltz, 2011).

It is important to get good advice when planning and starting a new business. Professional accountants are providers of such business advice. The modern day accountant should be more than just a bean counter and should be seen as a vital part of a business (Gorman, 2006). Finding the right person who provides appropriate and timely advice could ensure survival and growth instead of failure.

The key questions for most people looking for the services of an accountant include: how do I know I am getting a quality service and proper professional advice? Who will ensure that the accountant providing the service is doing so in a professional and quality manner? What are the quality standards for accountants, how are these standards measured and by whom?

This thesis explores how accountants and accountancy firms are monitored and supervised regarding the quality of service that they provide to their clients. It looks at how the accounting industry is structured in Ireland and the changes that have taken place in the last ten years. It investigates the attitude of accountants towards monitoring and attempts to discover how effective the monitoring process is.

1.2 Structure of the accounting industry in Ireland

The accounting industry in Ireland has a three tier structure. The industry as a whole is overseen by the Irish Auditing and Accounting Supervisory Authority (IAASA). IAASA was set up under the 2003 Companies Act. Prior to the establishment of IAASA, the industry was supervised directly by the Department of Enterprise, Trade and Employment (IAASA, 2006). Part of the role of IAASA is to supervise how the Prescribed Accountancy Bodies (PABs) regulate and monitor their members and promote adherence to high professional standards in the auditing and accountancy profession (IAASA, n.d.).

There are nine PABs in Ireland, listed in Figure 1. In order for an individual to become a member of one of these bodies they must successfully complete the body's professional examinations, obtain a minimum period of relevant work experience and undertake to comply with the body's bye-laws, regulations and standards as applicable (IAASA, 2011). Members of any of the PABs are entitled to use the body's designatory letters and must complete Continuing Professional Development (CPD) which is ongoing training that keeps them up to date with changes in regulations and international accounting and auditing standards. In order for a member to provide services to the public, they must apply annually for and obtain a practicing certificate which authorises them to do so. In order to obtain a practicing certificate, they must meet certain criterion which includes having minimum levels of Professional Indemnity Insurance (PII) and having practice continuity arrangements in place. Members who meet these requirements are granted practicing certificates which enables them to provide services to the public but which does not entitle them to conduct work in regulatory areas such as auditing and investment business (IAASA, 2011).

Figure 1

Name of Body	Prescribed Body	Recognised Body
Institute of Chartered Accountants in Ireland (ICAI)	Yes	Yes
Association of Chartered Certified Accountants (ACCA)	Yes	Yes
Institute of Certified Public Accountants in Ireland (ICPAI)	Yes	Yes
Institute of Incorporated Public Accountants (IIPA)	Yes	Yes
Institute of Chartered Accountants in Scotland (ICAS)	Yes	Yes
Institute of Chartered Accountants in England & Wales (ICAEW)	Yes	Yes
Chartered Institute of Management Accountants (CIMA)	Yes	No
Association of International Accountants (AIA)	Yes	No
Chartered Institute of Public Finance & Accountancy (CIPFA)	Yes	No

Of the nine PABs, six of the bodies are also recognised as being able to authorise their members to conduct statutory and public audits, under the Companies Act 1990 and the Statutory Audit Directive Regulations (IAASA, 2011). These six Recognised Accountancy Bodies (RABs) are listed in Figure 1. Any company or business that is required to have their accounts audited under company law must do so, on an annual basis, and make that return to the Companies Registration Office (CRO). The return must be completed by a registered auditor. The CRO receives a list of all registered auditors from the RABs as required under the Statutory Audit Directive Regulations. In order for an individual to become a registered auditor, they must first be a member of one of the RABs and hold the appropriate authorisation which is in addition to the criteria required for a practicing certificate.

The additional requirements will normally include having an appropriate audit qualification and having sufficient and appropriate post-membership audit experience (IAASA, 2011).

At the 31st December 2011, there were a total of 3,301 practicing certificates issued by the nine PABs in Ireland. Of the 3,301 certificates issued, 3,007 were issued by just three of the nine PABs. The three bodies were the Institute of Chartered Accountants in Ireland (ICAI), the Association of Chartered Certified Accountants (ACCA) and the Institute of Certified Public Accountants in Ireland (ICPAI). These three bodies issued over 91% of all the practicing certificates to members in Ireland in 2011 (IAASA, 2011).

There were 1,612 registered auditors in Ireland at 31st December 2011. The ICAI, ACCA and ICPAI issued 1,495 of these registration certificates which represented over 92% of the total issued by the six RABs (IAASA, 2011).

1.3 The Quality Assurance Monitoring Process

Each of the PABs is responsible for the monitoring of their members in terms of quality assurance. This is not however a regulatory requirement. The regulations state that only those firms performing statutory and public audits are required to be monitored. Every audit firm will receive a review and monitoring visit every six years. Firms that are auditing Public Interest Entities (PIE) are subject to reviews every three years (IAASA, 2006). A PIE is defined as being a public listed company, a bank or an insurance company (ACCA, 2009)

Each of the PABs has their own risk assessment process to determine how often they must review their members. The Central Bank requires that firms who have investment business clients also be monitored. This is done by the appropriate PAB.

1.4 Research Aim and Objectives

The primary aim of this research was to discover if the quality assurance monitoring process adds value for the client. In addition, it was hoped to determine that if complying with the monitoring process adds additional costs to the firm.

The objectives of the study are as follows;

1. To determine how often firms are monitored.

2. To discover how the PABs perform their monitoring duties and to establish how it varies between bodies.

3. To discover how complying with quality assurance reviews effects firms.

4. To determine if the firms believe that the monitoring process improves the quality of service the client receives.

1.5 Dissertation Layout

The remaining chapters of this dissertation are laid out as follows.

Chapter two: Literature Review

This chapter reviews the literature that has been previously written on the subject. It identifies issues that have arisen and the problems that existed because of them.

Chapter three: Methodology

Chapter three looks at the methods used by the researcher to complete this project. It compares the methods chosen with others available and justifies the choice. The researcher gathered primary data by conducting semi structured interviews with a range of Irish accountancy firm who are members of the three main RABs: ICAI, ACCA and ICPAI.

Interviews were also conducted with representatives from two of the three listed bodies and with a representative of IAASA.

Chapter four: Findings

The responses received in the interviews were analysed and the findings presented in this chapter. The issues are discussed and compared to existing literature.

Chapter Five: Conclusion

Chapter five provides an overall review of the study. It examines the successfulness of the research and the issues arising as a result. It also identifies areas for future investigation.

1.6 Limitations of the Study

This study is intended to give the reader an insight into how accountants and accountancy firms are supervised, in terms of how they provide services to their clients and the quality of such work.

However due to the constraints imposed by the limited availability of time and resources, the number of interviews possible was restricted. Some allowance must also be made for the possibility of a degree of human bias in the author's interpretation of the findings.

As a result, it is impossible to be conclusive about the results this small scale study provided.

CHAPTER TWO

LITERATURE REVIEW

CHAPTER LAYOUT

Chapter Two: Literature Review

2.1 Introduction

The professional accountancy industry in Ireland is overseen by the regulatory body IAASA, which was established by the Companies' Act 2003. IAASA was established as an independent authority and part of its role is to supervise how the PABs regulate and monitor their members.

In order for a professional accountant or accounting firm to apply for or renew their practicing certificate, they must comply with the regulations of the PAB that they are a member of (ACCA, 2009; IIPA, 2010). These regulations include reviews of the quality assurance systems used by the firms to deliver their services (IAASA, 2007). The purpose of having a quality assurance system is to ensure that the firm is aware of, and is complying with its statutory and regulatory obligations. That it is identifying all its clients' needs. That it is maintaining a paper-based or electronic system of recording communications with clients and that all staff have access to the most recent technical knowledge and skills through training (ACCA, 2009). The PABs conduct these reviews by means of a desktop review and monitoring visits (POB, 2010). Desktop reviews usually consist of the inspection of an annual return and questionnaire. Practices are then subject to monitoring visits, the frequency of which is risk-based (ACCA, 2009). The monitoring visits vary between two and six years. When a practice has been selected for a visit, the body will liaise with the practice regarding the timing of the visit and details of what it will entail. The length of the visit will depend on the size of the practice and the type of work it is involved in. After the completion of the visit, the reviewer will then compile a report on the practice. This report will contain the recommendations made to the firm and although they are not obliged to adopt the recommendations, they are encouraged to conform in order to ensure best practice (ACCA, 2009). If a firm is found to have more serious deficiencies and does not implement the recommendations made, then it can have restrictions imposed or have its practice certificate withdrawn (ACCA, 2009; IIPA, 2010). The PABs produce annual reports which detail the number of monitoring visits made and the results (CARB, 2011).

IAASA also publishes an annual report that includes details of sanctions imposed (IAASA, 2010). The majority of complaints are quality related (IAASA, 2011).

Practices involved in the audit of PIEs are subject to monitoring visits every three years as are firms who have had an unsatisfactory outcome to their previous monitoring visit. At present, a PIE is defined as being a public listed company, a bank or an insurance company (ACCA, 2009).

For smaller practices not performing audits on PIEs, the PABs also monitor how they supply their services and conduct their business (ACCA, 2009). This is performed in a similar manner to the supervision of larger practices but the frequency of visits is approximately once every six years provided they have had a satisfactory outcome to their previous visit (Haythornthwaite, 2004). Where a practice is newly appointed as a member of a PAB, they will be subject to a visit within the first few years of business and may have a visit within the first twelve months if the relevant body feels that it is necessary (CPA, 2006a).

Quality reviews are conducted in many countries worldwide and most would indicate that the purpose of a review is educational and remedial, not punitive (Alkafaji, 2007). The International Federation of Accountants (IFAC) is a non-governmental organisation that is responsible for setting standards and ethical guidelines on auditing and accounting (Loft et al, 2005; Bather A. and Burnaby P., 2006). The IFAC states that "The purpose of the monitoring program is to assist the firm in obtaining reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The program is also intended to help ensure compliance with practice and regulatory review requirements" (IFAC, 2009, p. 63). Where a practice has failed to comply, or has had a deficiency uncovered, they must undergo corrective actions or face disciplinary actions. The IFAC (2009) recommend that "the firm develop policies and procedures that will permit it to address all deficiencies the monitoring program detects (except those that are trivial or inconsequential). It should consider whether these deficiencies indicate structural flaws in the quality control system or demonstrate non-compliance by a particular partner or staff member" (IFAC, 2009, p. 67).

Previous research has focused on the regulatory areas of accounting such as auditing but with more small companies becoming exempt from audit because of changes in the threshold (Kenny, 2005), accounting firms are earning a higher percentage of their fees from non-regulatory work (Alexander, 2003; Bather and Burnaby, 2006). Auditing is not the profitable and prestigious product it once was (Rezaee, 2004; Doran, 2006). It is now common that audit clients form a small percentage of a firm's total clientele (POB, 2006). The independent supervisory body in the UK, The Professional Oversight Board (POB), notes that the number of registered audit firms is gradually declining (POB, 2011). This has resulted in a greater focus on how the firms provide these non-audit services although they are not part of regulatory monitoring.

Previous research in the areas of service quality and monitoring raise a number of issues in the accounting context. There are considerable costs associated with the supervision and monitoring procedures (CARB, 2011) and this is funded by the firms.

Do these costs and those borne by the firms in implementing adequate quality assurance systems justify the benefits gained by the firm's clients? When this research is analysed, these matters leave questions that can be best answered by the firms themselves.

2.2 Historical Monitoring

Quality assurance monitoring of accountancy firms began as far back as the mid-1970s in the United States (USA) and became mandatory there from 1988 (Alkafaji, 2007). This monitoring focused on regulatory audits and was conducted through a peer-review program that was overseen by the American Institute of Certified Public Accountants (AICPA) (Gunny and Zhang, 2009; Hilary and Lennox, 2005). Following high profile corporate governance failures, an independent regulatory body, the Public Company Accounting Oversight Board (PCAOB), was set up to oversee the industry which replaced the role of the AICPA (Gunny and Zhang, 2009). The change came about because of concerns that the self-regulation had failed (Hilary and Lennox, 2005).

There has been much debate about the merits of peer review and independent regulation (Collins and Shultz, 1995; Gunny and Zhang, 2009; Hilary and Lennox, 2005; Lennox and Pittmann, 2010; Russell and Armitage, 2006; Van de Poel et al, 2009). In Europe the European Union (EU) 8th directive in 2006 required each country to create an effective system of public oversight and be governed by non-practitioners (Van de Poel et al, 2009). The directive also gave the public oversight authorities the ultimate responsibility for the approval and registering of audit firms, quality control procedures, continuous education and disciplinary measures (Van de Poel, 2009).

Most countries have since established some form of monitoring procedures (Alkafaji, 2007). The IFAC has members in one hundred and twenty seven countries worldwide (IFAC, 2011a) including some of the PABs in Ireland (IFAC, 2011b). The IFAC, in its 2004 Statements of Membership Obligations (SMOs), stipulated that its member bodies establish quality assurance reviews (IFAC, 2004, SMO1). In Ireland and the United Kingdom (UK), the accounting firms are licensed and monitored by their member body which in turn is supervised by the independent body. In the UK the body is the POB and in Ireland it is IAASA, set up by the Government in 2003. Canning and O`Dwyer describe this system as 'delegated self-regulation' (Canning & O`Dwyer, 2001)

Alkafaji identifies that the thirty three countries in his research have the same key objectives in that they want to ensure that there is a minimum criterion of quality in meeting professional standards, that credibility is added to the accounting profession and that corrective actions and education are encouraged (Alkafaji, 2007, p 648). There is evidence that firms receiving a negative review are more likely to lose clients (Bedard et al, 2008). This evidence is based on audit reviews but there is a lack of substantial research into the effects of a negative review of non-audit services. The POB finds that a firm could have a negative review from a regulatory monitoring visit but receive a satisfactory assessment from a non-regulatory visit (POB, 2010).

Alkafaji's research also suggests that a review conducted every three years is the most effective. He found that a three year cycle gives a reasonable length of time between reviews but still keeps the quality control issues on the agenda (Alafaji, 2007). This is backed up by Porter whose earlier research identifies that anything less than a five year cycle would be inappropriate (Porter, 1997). The EU 8^{th} Directive requires that firms are monitored at least once every six years (POB, 2006).

2.3 Defining & Measuring Quality

Quality has become an issue for all businesses since the early 1950s. Many books have been written on the subject and industry has attempted to model itself around quality (Wright, 2009). Wright (2009) notes that, "Quality control focuses on developing and maintaining a service or product that is economical, useful and satisfactory to the customer". Service quality is difficult to measure (Duff, 2009; Quester and Romaniuk, 1997) and is seen to reflect the difference between client expectations and perceptions of actual performance (Berry, et al, 1990). Lim (2008) states "Few studies have sought to give a comprehensive account of the dynamics in managing quality assurance systems" (Lim, 2008, p 127). The fact that accounting services are specialised means that the general public do not find it easy to measure the quality of service they receive (Porter, 1997). Dean (2002, p. 402), cites Rimmer (1994, p. 83) who notes that "there are no generally accepted measures of quality. Frequently used measures include surveys of users, changes in input, the range or number of output and performance indicators such as a systematic assessment of user complaints".

Dean (2002, p. 402) further cites Hall and Rimmer (1994, p. 456) who state when talking about quality that it is only used in an economic sense. This is found to be true because the aim of providing a quality service is client satisfaction and therefore retention (Landrum et al, 2009; Van de Poel, 2009). Therefore, how service quality is measured is important, as it will provide information to the firm regarding the effectiveness of their system and recommend improvements which will lead to increased revenue (Alkafaji, 2007).

The PABs tend to use the same approach to measuring quality regardless of the firm size (POB, 2006) although ACCA claim not to prescribe set procedures for firms to follow, and that it distinguishes between small and large practices when conducting reviews(ACCA, 2009). The reviewers approach to measuring a firm's quality control standards focuses on whether the firm's quality control system is adequate and if so, is it complying with the system (Hilary & Lennox, 2005).

Although all countries share common objectives in that they want to ensure that the quality of services provided are at a certain standard, the measurement techniques vary in respect of reviewer, frequency of visit, scope, confidentially of review reports, public representation and funding (Porter, 1997; Alkafaji, 2007). There does not appear to be a international agreement or guidance on minimum standards (Alkafaji, 2007)

2.4 Benefits of Monitoring

A firm that implements an effective quality control system can be reasonably assured that their services are carried out in accordance with professional standards (Schmutte and Thieling, 2010). This indicates that a firm should not approach quality reviews with a sense of fear or apprehension, but welcome them as they could further improve service quality (Bedard, et al, 2008). ACCA (2009, p. 3)have a Quality Checked (QC) scheme which aims to "encourage firms to adopt best practice procedures in relation to standards and quality controls, and also help them maintain a competitive edge in the marketplace". Allen (2011, p. 57) concurs with this, stating "Firms with effective quality control systems not only continuously improve the quality of their services and comply with professional standards; significant additional benefits abound". Evidence also indicates that substandard performance is linked to poor results from quality reviews or an absence of quality reviews (Thomas, et al, 1998 cited in Alkafaji, 2007; Hilary and Lennox, 2005). Where poor standards are identified it is important to address them and learn from the experience as is acknowledged by Roybark (2006, p. 128) "Learning from our mistakes is essential, both individually, and collectively, as a profession".

The quality of service provided can give competitive advantage in limited geographical areas where there are many firms offering similar services (Hoffman and Bateson, 1997 cited in Saxby, et al, 2004 p.75). Saxby (2004, p. 75) further contends that “higher levels of customer satisfaction lead, in turn, to repeat business and ultimately to higher levels of income. Thus, accounting firms should be concerned with maximizing service quality”. Increasing the quality of services provided can also preserve long term relationships with clients (Landrum, et al, 2009). One participant in Allen’s (2011, p. 57) research remarked “If you have quality and you deliver advice that is timely and accurate, you will make money”.

There is evidence that firms, although sceptical at first, do find monitoring an opportunity to improve their profitability and performance (Illingworth, 2004). There is a perception that participating in a quality review program will improve the quality of service being provided and that that participation itself represents a commitment to quality (Bedard et al, 2008). Previous research conducted in the area of regulated services in the US, concluded that reviews are perceived to improve the quality of work and service provided (Alkafaji, 2007). Reliability and assurance are identified as the areas that firms should concentrate on when wanting to improve service quality and customer satisfaction (Saxby et al, 2004). Maintaining quality is a challenge but by meeting that challenge, a firm can enhance its image and reputation, avoid lawsuits and abide by professional standards (Hull, 1992).

2.5 Impact of Quality Assurance Monitoring on Firms

Previous research has shown that clients prefer to use the services of a high quality audit firm (Lennox and Pittman, 2010). Landrum et al (2009) finds that quality of service has a major influence on customer’s satisfaction and on their continuing to make use of the service. How does a firm provide the service that a client expects, and does the quality control systems that satisfies the regulators reviews, provide for their clients’ needs or is it excessive and a burden? Russell and Armitage (2006) cited Ehlen and Welker (1996) who surveyed firms in America and established that the majority of firms did not find that the reviews were cost-beneficial. Although they felt that the reviews were fair, smaller firms especially, found that the reviews were not cost-beneficial and that the three year review cycle was too short (Russell and Armitage, 2006).

The review process has the greatest impact on small firms (Porter, 1997). Bedard et al (2008) cited Read et al (2004) who interviewed partners of small firms who had stopped engaging in audits and found that "increased oversight, liability insurance costs, and scrutiny were primary reasons for resignations" (Bedard et al, 2008, p 208)

A firms system of quality control can be split into three levels. The first level is how it reviews its own system, the second level is how the client judges its level of service and the third level is independent verification by means of monitoring (Nwankwo, 2000). Nwankwo (2000) does acknowledge that firms usually implement quality systems around accreditation schemes or as in the accounting field, the monitoring process. Implementing a quality system to fit a monitoring process will increase bureaucracy for the firm (Doran, 2006). The availability of modern information technology has decreased the time needed to prepare financial statements, but this additional time is now spent complying with quality assurance regulations (Doran, 2006). Unlike the regulatory monitoring, where disciplinary actions will happen if breaches are found, quality assurance monitoring is more education based and this shows that the monitoring bodies have an awareness of the unequal impact of monitoring on small firms compared to larger ones (Porter, 1997).

2.6 Benefits of Quality Assurance Monitoring for the Client

When the general public engages an accountant they expect the work to be carried out with integrity and that the person is competent to carry out that work (POB, 2010). The same POB (2010) report finds that the general public, who use external accountants, are not really aware of the monitoring procedures their accountant is subject to and have little understanding of how the system works.

Clients have an expectation about the quality of work they should receive and if they perceive that the performance of the accountant has not matched or exceeded their expectation, a negative gap is the result (Saxby et al, 2004). Performance that matches expectation produces satisfaction and should it exceed expectation customer fulfilment increases (Saxby et al, 2004). Saxby et al (2004) cite Cronin and Taylor (1992) and Teas (1994) whose research finds that on its own, perceived performance is an accurate indicator of service quality.

2.7 Legal Term 'Accountant'

Under the current law, there is no legal protection for the term 'accountant' in Ireland (IAASA, 2006). This means that anyone can call themselves an accountant and provide services to the general public. Such people are not monitored in any way. "Persons providing accountancy services in the state who are not members of any accountancy body are not currently subject to any form of regulation or supervision" (IAASA, 2006, p 4). This IAASA consultation paper invited interested parties to comment on the issue of legal protection for the term accountant.

One response came from The Competition Authority (CA) which argues that "any system of statutory regulation of a title automatically creates barriers to entry and market rigidities which can have negative effects for consumers of the services" (The Competition Authority, 2006, p 2). The C A further contends that regulation of the profession could result in increased prices to consumers but without any actual improvement in quality (The Competition Authority, 2006). The CA bases its argument on a report by the Review Group on Auditing in 2000. They cited this review which noted "there is no evidence for public demand for such a protection, and no evidence of abuse of the term has come to the attention of the department" (The Competition Authority, 2006, p 5). There is evidence, however to suggest that professionals feel that it takes up to six years post-qualification experience before one feels fully competent (Cheetham and Chivers, 2001).

The ICPAI, which is one of the nine PABs that are under the supervision of IAASA, also submitted a response to the consultation paper. They argue that the public are unaware that persons using the title 'accountant' may not have any formal qualifications and are not subject to any form of regulation and this backs earlier research by Porter (1997)(ICPAI, 2006a). ICPAI claim that because people who have no formal qualifications or are unregulated are permitted to provide services, it undermines the whole process of monitoring. Members of the public who are using such individuals are not safeguarded in the same way as they would be with professional accountants (ICPAI, 2006).

Accounting guidelines are constantly updated and ICPAI, along with all the other PABs, recognises this and ensures that their members undergo Continuous Professional Development/Education (CPD/CPE) (ICPAI, 2006a). They also point out that the anti-money laundering legislation was extended in 2003 to include ‘accountants, auditors and tax advisors’. The fact that the term ‘accountant’ is not defined legally makes it difficult to identify who is under this legislation (ICPAI, 2006a). ICPAI does not want to restrict an unqualified person from providing services or for the public to be restricted if they want to engage such a person. However it does want the unqualified person prevented from using the term ‘accountant’ and seeks to ensure that the public are aware of the fact that he/she is not professionally qualified (ICPAI, 2006a).

The ICAI, another one of the nine Bodies under the supervision of IAASA, also produced a response to the consultation paper and largely agreed with the ICPAI response (ICAI, 2006). They pointed out that as IAASA are responsible for “promoting adherence to high professional standards in the auditing and accounting profession” (www.iaasa.ie). They are open to criticism because people acting as accountants who are not members of one of the nine PABs are outside of their scope (ICAI, 2006). The value of membership of one of the PABs and being able to use the PABs designated letters is acknowledged by Cowton (2009) who is of the opinion that as the member gains from the PABs reputation, the body must protect that reputation by regulating the member. ICAI also make the point that because accountants are performing less statutory work such as audits, there is a temptation for accountants to resign their membership from their member body and practice in the unregulated and unsupervised sector (ICAI, 2006).
IAASA produced a feedback paper in 2007 based on responses to the 2006 consultation paper. It included recommendations to the government that the term accountant should be restricted to certain persons (IAASA, 2007). They assert that members of the public will assume that anyone who describes themselves as an accountant will have completed their exams, gained their qualifications after the necessary work experience and is subject to monitoring (IAASA, 2007).

This assertion appears to back up the view of Collins and Schultz (1995) who state that accountants owe primary allegiance to the “using “public. IAASA (2007) identifies risks to members of the public who engage non-qualified persons which could result in financial loss by acting on incorrect advice and not having any means of recourse as such a person is not a member of one of the nine supervised PABs. IAASA (2007) contends that such risks run contrary to the principles of the 2003 companies act, and IAASAs own core principle of enhancing public confidence in the accounting profession. Opposing the CAs assertion that there is no abuse of the term accountant, IAASA state that they have had complaints from members of the public regarding persons whom they were led to believe were professional accountants but in fact were not (IAASA, 2007). It is recognised that unqualified persons have a cost advantage over regulated accountants and that is counter-intuitive (IAASA, 2007).

2.8 Research Questions

When the author concluded the literature review, a number of areas and issues were identified as needing to be addressed. It was felt that by putting the following questions to accountants and accounting firms, a greater understanding of these issues would be obtained. This would also lead to answers regarding the central aim of this research which is to find out if the quality assurance monitoring process adds value to the services provided by accountants or is it just an additional cost to the firm.

Q1: How often have members received monitoring reviews?

Research has indicated that the effectiveness of monitoring is at least partly dependant on the frequency of the monitoring visit (Porter, 1997; Alafaji, 2007). This question aims to determine how often the PABs in Ireland assert they perform monitoring visits and investigate if it is an expectation they are living up to or just compliance. ICAI have indicated that they have not been meeting visit targets as their resources have been concentrated on a review of certain financial institutions over the past few years CARB, 2011).

Q2: How are these reviews structured?

Each of the PABs has their own methods of reviewing their members. ACCA has a clear separation of quality control from regulatory audit monitoring and offer the incentive of their QC seal of approval (ACCA, 2009). This contrasts with ICAI who perform regulatory and quality assurance monitoring together (CARB, 2011). This question will examine these methods and compare them with each other and with best practice.

Q3: Do members feel that the reviews are beneficial?

There is little research to show how beneficial the firms feel that the monitoring process is to them. Previous research has focused on data collected from the users of professional accountants (POB, 2010). This question will explore the ways in which accountants feel that reviews are beneficial and will also examine if they feel the reviews improve the way they provide their services to their clients or do they believe that they have already provided an acceptable level of service quality.

Q4: How does implementing a quality system impact on a firm?

This question will examine how the quality assurance monitoring process impacts on the firm. It will consider the costs involved and the time that it takes to implement a system as previous research indicates that it may not be cost beneficial (Russell and Armitage, 2006). It will also examine if the implementation of the firm's quality system increases profitability as previous literature has asserted (Allen, 2011).

Q5: Does the member feel that the client benefits from the firm having a quality system?

This question will ask the accountant if they believe that the client benefits from the member being monitored. The 2010 POB report states that the general public do not understand the monitoring process or what it involves. It will also probe if the additional cost of implementing a system, which satisfies the firm's member body, can be justified in the additional service benefit the client receives.

Q6: Does the member believe that the term ‘accountant’ should be legally protected, and if so why?

The only areas required by law to be monitored, in terms of quality assurance, are audit and investment business. The raising of the audit exemption limit has meant that a much larger portion of a firm’s income is coming from non-regulatory work (Alexander, 2003; Bather and Burnaby, 2006). This work can be performed by anyone and they do not have to be a member of a PAB. They can also legally call themselves an accountant. This question will ask accountants, who are members of the PABs, if the public are able to distinguish between a qualified professional accountant and someone who merely describes themselves as an accountant. It will also examine if it is beneficial for the accounting industry to have such services provided unregulated.

2.9 Conclusion

Since the introduction of IAASA in 2003 under the Companies Act, the role of the accountancy firm has changed in that the work they carry out is now supervised and they are answerable for the quality of the work that they perform. The 2003 act also raised the audit exemption limit for small companies (Kenny, 2005). This exemption was further raised in 2006 (CPA, 2006b). The raising of these exemption limits has had the effect of lowering the volume of statutory work being carried out by practices. The Institute of Chartered Accountants in England and Wales (ICAEW) stated to practitioners in their 2003 report “You should aim for up to 60 per cent of income to come from consultancy work or other value added services” (ICAEW, 2003, p. 16) The POB recognises that the PABs monitoring arrangements were established to protect public interest and provide guidance to members who undertake non-regulated work (POB, 2010, p1). The monitoring procedures carried out by the PABs aim to fulfil both these objectives.

Research previously carried out has been focused on the viewpoint of the PABs and the clients (POB, 2010; Alkafaji, 2007; Saxby, et al, 2004), and also on the quality of regulated audit work (Porter, 1997; Ramirez, 2005; Lennox and Pittman, 2010).

This research points to the fact that monitoring of audit firms has improved audit quality (Bedard et al, 2008; Alkafaji, 2007).

There is not a lot of available research on how the non-audit practices, both large and small, view current monitoring procedures as identified by Alkafaji (2007). This is an area that is relevant because of the increasing amount of non-statutory work and services currently carried out by practices. Clients also want their accountant to be knowledgeable, able to answer questions and know that they are familiar with ever changing rules and regulations (Saxby et al, 2004). A great deal of this knowledge is gained in the workplace (Cheetham and Chivers, 2001). The public more than ever have a clear interest in the quality of financial reporting (Loft et al, 2005).

There would of course be no need for any regulation or monitoring, if accountants acted altruistically and put the good of society and community ahead of their own or client interests, but this is not realistic (Canning and O`Dwyer, 2001).

Ethical education has now become part of professional accountancy examinations in most countries (Waldmann, 2000). Cowton (2009) questions "whether being ethical 'pays' in financial terms; and whether formal codes are useful in promoting ethical behaviour" (Cowton, 2009, p 177). His research concludes that the challenge for the PABs is to be perceived as a profession which holds a valuable technical and ethical endeavour deserving its considerable rewards and not seen as a conspiracy against society that seeks to justify its considerable rewards through a smokescreen of ethics (Cowton, 2009, p187).

The monitoring review procedures that the PABs have in place may be very credible; however there can never be a flawless system (Hilary and Lennox, 2005; Porter, 1997; Bratton, 2003; Bather and Burnaby, 2006). The question will always be asked, why do failures still happen? Perhaps the question should be what failures have been avoided as a result of the monitoring that is in place (Porter, 1997). Nwamkwo, (2000), notes that being able to win quality accreditation does not ensure a true commitment to quality and he further quotes from an unknown source

"You can satisfy every quality standard and even reach the Holy Grail of Six Sigma without having a quality organisation. It is much better to view quality certification measures not as a panacea but a pilgrimage, a journey not a destination"

(anonymous cited by Nwamkwo, 2000, p 95)

CHAPTER THREE

METHODOLOGY

CHAPTER LAYOUT

Chapter Three: Methodology

3.1 Introduction

In this chapter the author outlines the methodology used in order to find out if the quality assurance monitoring processes used by the PABs within the accounting industry in Ireland adds value to the service provided by the accountant to the client, or does it just add additional costs to the firm.

The chapter will describe the various methods available to collect data and the advantages and disadvantages of each. It will identify which method was chosen and give a justification for that choice.

3.2 Research Philosophy

Two of the main research philosophies that researchers can adopt are positivism and interpretivism. The researcher's choice of philosophy will reflect how they think about the development of knowledge and contain important assumptions about the way in which they view the world (Saunders et al, 2009).

The positivist philosophy is like that of a natural scientist. Saunders et al (2009) quotes Remenyi et al (1998) who states that the positivist researcher prefers working with an observable social reality which will result in law-like generalisations (Saunders et al, 2009). What Saunders is saying is that positivism is a scientific approach where data is quantifiable and there is little or no room for observation. Critics of the positivism philosophy will say that the highly structured research design imposes constraints on the results and that it fails to examine people's perceptions (Collis and Hussey, 2000). It was following criticism of positivism that the interpretivism was developed as an alternative explanation.

The interpretive philosophy is where the researcher has to "enter the social world of the research subjects and understand their world from their point of view" (Saunders et al, 2009, p. 116). Interpretivism makes the assumption that the social world is constantly changing and that the researcher is a part of this. Saunders also identifies that the adoption of an emphatic stance is crucial to the interpretivist philosophy.

The author adopted an interpretive philosophy to this research. It was felt that it was the most suitable because it gave a flexible approach to collecting the data. It also takes into account the changing business environment which is important as there are regular changes in the accounting industry where accounting standards are constantly updated (Saunders et al, 2009). The interpretivist philosophy allows for the details of the monitoring process to be understood and an understanding of the reality working behind them (Remenyi et al, 2003) whereas previous literature from Alkafaji (2007), Duff (2009) and others were from a positivist approach. These approaches produced results but didn't explore the reasons behind the results. By adopting an interpretive philosophy, the author hoped to expand on the findings of previous literature.

3.3 Research Approach

There are two main approaches to research; deductive and inductive. The deductive approach involves the collection of quantitative data using a highly structured mechanism. It emphasises the necessity of selecting samples of sufficient size in order to generalise conclusions. The inductive approach involves the collection of qualitative data and has a more flexible structure which permits changes of research emphasis as the research progresses. There is also less concern with the need to generalise and a realisation that the researcher is part of the research process (Saunders et al, 2009).

The inductive approach was adopted for this thesis as it was felt that it would give a much richer insight into quality assurance monitoring than a deductive approach. This approach allowed the flexibility that the author felt was needed in order to explore the research area without the need to produce quantitative data.

3.4 Research Focus

All research fits in to one of these broad areas: exploratory, descriptive and explanatory.

Research that fits into the exploratory classification has been designed to explore opinions on the research area. It is useful to gain a better understanding of the area especially where no previous research has been done (Hair et al, 2007).

Descriptive research is used to depict an accurate profile of persons, events or situations. It can be used as a forerunner to an exploratory research (Robson, 2002). Data gained usually describes the characteristics of the research area (Hair et al, 2007).

An explanatory study is one which examines casual relationships between variables (Saunders et al, 2009). It aims to clarify why there is a relationship between two parts of a problem and to bring an understanding of that problem (Collis and Hussey, 2000)

The research focus adopted for this dissertation will be exploratory. This is because the author aims to gain an insight into the area of the quality assurance monitoring of accounting firms. The exploratory approach is useful as there has not been substantial previous research in this area although Doran (2006) did conduct some interviews with various organisations but not with accountants. There is also an element of a descriptive focus as the author describes how changes in the regulatory monitoring procedures have affected the scope of quality assurance monitoring in the accounting industry.

3.5 Data Collection Methods

There are many methods that a researcher can use to gather data. The most common are questionnaires and interviews. Other methods of collecting data include case studies, focus groups and observation.

Observation

Observation involves the researcher watching the actions and behaviour of the people who are central to their study. The researcher then records what they have seen and analyses the results. They then describe and interpret what they have observed (Robson, 2002).

Focus Groups

Focus groups are similar to interviews but the difference is that all the participants are interviewed together. The difficulty with focus groups is logistics; it is difficult to get a time and venue that is suitable to all the participants.

Case Study

The ‘case’ in a case study is the situation, group, individual or organisation that the researcher is interested in. It is a strategy rather than a method and is focused on a particular or specific case (Robson, 2002).

Questionnaires

A questionnaire is a data collection technique where each respondent is required to answer the same questions in a predetermined order (Saunders et al, 2009). Questionnaires are widely used and while they are easy to use they can be difficult to design. They can be administered by interview or by self-administration through the internet or by postal response.

Interviews

An interview is probably best described as a purposeful discussion between two people (Kahn and Cannell, 1957). There are three main structures that can be adopted when using an interview; structured, semi-structured and un-structured.

A structured interview is where a pre-determined questionnaire is used and the data collected is quantifiable (Saunders et al, 2009).

A semi-structured interview is where the interviewer has a list of themes and questions to be covered but they may vary from interview to interview. The order of questions may vary and some questions may be omitted if they are not deemed necessary. Additional questions may also be added if it is considered necessary (Saunders et al, 2009).

An unstructured interview is an informal interview where there is no predetermined list of questions to work through. The interviewer must have a clear idea about the area that they are discussing. The interviewee has the opportunity to talk freely about the topic area (Saunders et al, 2009). An unstructured interview is an in-depth discussion which requires an experienced interviewer and, as a research tool, is not an easy option for a novice (Robson, 2002).

Data Collection Method Adopted

The author decided that in order to get a deeper understanding of the quality assurance monitoring process in the accounting industry, semi structured interviews would be the most suitable rather than questionnaires. Logistic problems meant that it was impossible to perform a focus group and the author felt that individuals would speak more freely in a one to one interview situation rather than a group setting. Structured interviews were not chosen because the author felt that they were too inflexible. The unstructured interview approach was not chosen because the author wanted some control over the direction of the interviews and felt that the unstructured approach could drift off into tangents that would not be relevant to the study.

By adopting the semi structured approach, a richer insight can be gained from the interviews as it allows the interviewer to be flexible. The author felt that semi structured interviews were suitable as the perceptions of the interviewees were being sought and the data is subjective and qualitative. By using semi structured interviews, questions can be open-ended and the order in which they are put to the interviewee can be flexible so that questions may be added or omitted as necessary (Hair et al, 2007). It was felt that as each interviewee has their own unique opinion, this method would allow those opinions to be expressed and the reasoning behind them given.

3.6 Profile of Interviewees

When the secondary data collection was completed, it was decided by the author to complete semi structured in depth interviews with accountants who were members of the three largest PABSs. These three are ICAI, ACCA and ICPAI. Accountants working in a range of firm sizes throughout Ireland were contacted. Permission for six interviews was then secured with firms who were all members of these three PABS.

The six interviewees were spread across four counties and three provinces. This ensured that there was no geographical bias.

The interviewees represented a range of firm sizes. One person belonged to a firm that had more than fifty partners, two belonged to firms that had between ten and fifty partners and the other three were from firms that had less than ten partners. The six interviewees from the firms are referred to in chapter four as interviewee AF06, AF07, AF08, AF09, AF10 and AF11.

The author also decided that it would give the study greater insight if representatives of the three biggest PABs, to whom the six firm interviewees were members, were given the opportunity to be interviewed and provide their perspective on the subject. All three PABs were contacted and two agreed to provide representatives for an interview but the third PAB declined the opportunity. The two representatives from the PABs are referred to in chapter four as PAB01 and PAB02.

A final interview was then sought from IAASA and Mr Ian Drennan, Chief Executive Officer (CEO), kindly agreed to be interviewed. Mr Drennan also agreed to waive his anonymity.

3.7 Data Analysis

The interviews were first transcribed so that the data could then be analysed. They were then categorised so that each area could be individually addressed. This allowed for the data to be systematically and rigorously analysed (Baxter et al, 2006). Unnecessary data was removed ensuring that the remaining information could be specifically linked to the research questions. This information was then reorganised so that relationships and patterns were recognised.

3.8 Limitations of the Study

As with all research, there were limitations with the methodology chosen. Time constraints meant that a limited number of interviews were possible. The interviews were recorded and this can sometimes inhibit honest responses (Bell, 2010) but it was hoped to overcome this limitation by allowing the interviewees to remain anonymous. Those interviewed also received a transcript of the interview for approval before the interview data was used in the research.

There is also a limitation in that interviewer bias may have influenced the quality of the data. When one researcher conducts all the interviews, there is a possibility that any interviewer bias may go undetected because the bias is consistent throughout the interviews (Bell, 2010).

3.9 Conclusion

Following the collection of secondary data by means of a literature review, semi structured interviews were the chosen method for the collection of the primary data.

A pilot interview was conducted in order to test the recording equipment and to allow some assessment of the questions and make the necessary adjustments.

This research is interpretive and exploratory which allows it to be flexible and take into account differing views and perceptions. This gives a more in-depth study into quality assurance monitoring of accounting firms.

Nine interviews were conducted and the findings of these are presented in chapter four.

CHAPTER FOUR

FINDINGS

CHAPTER LAYOUT

Chapter Four: Findings

4.1 Introduction

This chapter outlines the findings of the primary research. The central aim of this study was to discover if the quality assurance monitoring process in the accounting industry in Ireland adds value to the service received by the client or does it merely add additional costs to the firm. In order to answer this, the chapter contains three sections with the three tiers of the accounting industry all having their opinions expressed. This is done by exploring each of the issues that were identified in the literature and leads to a conclusion on the central aim.

4.2 The Accountants View

This section deals with the views and perceptions of the six professional accountants interviewed. Each interviewee was asked six questions in order to gain their individual insight into the monitoring process.

Frequency of visits

All the interviewees were in agreement that the frequency of visits was decided by the PABs on a risk basis. All firms involved in statutory audits were due a visit at least every six years. Firms that are auditing PIEs would expect a visit at least every three years. Two of those interviewed felt that because of the level of their investment and audit business, they would expect to be reviewed every two years or even annually.

All the respondents, except one, have had a visit in the previous six years. The one, who had not, has not received a visit in at least ten years. This respondent (AF11) did point out that they do have an independent firm come in every year to conduct a review of their files and when they fill in their annual application form to their PAB, they are asked if they have had such a review. The respondent felt that this might satisfy their PAB but they are still quite perplexed as to why they have not received a visit in such a long period of time. They are certainly not being monitored within the Statutory Audit Directive Regulations which requires that all audit firms receive a monitoring visit at least every six years.

Two of the other respondents also expressed the opinion that they were overdue a visit because of the nature of the business that they conduct and the clients they possess. When asked why they believed that this was not happening as it should, they both responded that they believed it was because the ongoing investigation into the banking sector was taking up much of the time and resources of their PAB.

Structure of the Visits

All the interviewees stated that they have an annual return to complete which provides information about the firm and its clients. This return is not part of the monitoring process but it was felt that the PABs use this information as part of their risk analysis decision making procedure. One respondent (AF06) stated that the annual return gives the PAB a 'flavour 'of the firm.

Firms are given about one month's notice that they are to receive a visit. Although this may seem like quite a long period of notice, it was pointed out that if a firms systems and procedures were not in order there would not be enough time to put them right. A visit would last from as little as one day for a small practice to two weeks for one of the very big firms.

There is an opening meeting when the reviewers arrive and following this they will select a number of client files and review them. The files are selected at random but always include those that are deemed high risk, examples being solicitors or credit unions. They also do a review of back up material like employees CPD and PII. After the review is concluded the reviewers will sit down with the firm and discuss their findings. The firm has an opportunity to give its views on the results and any issues that have arisen. The firm receives a written report after the reviewers leave. The report outlines any issues arising and makes recommendations which the firm must respond to. The firm has to come up with an action plan in order to deal with the reviewers' recommendations and then implement it. The more serious issues must be dealt with and less serious issues are at the firm's discretion although they are nevertheless recommendations. The firm is awarded a grade and this will help decide how long it will be until the next visit.

Benefits of Monitoring Visits to the Firm

All interviewees felt that the monitoring process and visits were beneficial. The attitude of all respondents was very positive towards visits. One respondent (AF06) put it like this,

> *"They are beneficial because I think there's no point in having a system if there isn't some form of monitoring. There's no point having a regulatory system that's not monitored. It's like having the rules without having the police to enforce it."* (AF06)

The feeling was that the visits were not adversarial and were constructive which is in agreement to previous research by Alkafaji (Alkafaji, 2007). The interviewees felt that the fact that they know that their files are subject to possible inspection keeps them on their toes and ensures that they do not let quality standards slip.

One respondent (AF08) did state that benefits were limited because the firm does not always gain new knowledge from having files reviewed. Another respondent (AF11) stated that because they hadn't been visited in the last ten years, they didn't feel any benefit from the monitoring process.

Overall it was felt that the monitoring process and visits were beneficial but it doesn't guarantee that the firm provides a quality service.

> *"Following regulatory monitoring on its own does not ensure that you have a good quality system but it does assist."* (AF07)

Impact of Implementing a Quality Control System

There were varying responses regarding the impact of implementing a quality assurance system. Larger firms did not feel the same impact as smaller ones. This is because the larger firms have annual reviews both internally and from their international partners as well as the PABs monitoring procedures. The feeling amongst these firms was that their own monitoring reviews were quite stringent and resulted in lessening the impact of the PAB visit.

> *"We have controls and annual reviews so the impact of the external monitoring is not huge to be quite honest. In terms of quality assurance the external monitoring would have a minimum impact."* (AF08)

Their quality systems to meet the demands of their own reviews were more than adequate to meet the demands of the PABs. Their quality systems were part of the firm's culture with only minor improvements or adjustment ever being made.

The smaller firms found the implementation of a quality system to be time consuming, especially at the initial set-up. They were all in agreement that once it was set up it had a positive impact and was easy to maintain.

The initial set-up involved the changing of the old habits and putting more emphasis on routine, technical know-how and knowledge. Although it may be time consuming to implement in the beginning, all respondents felt that it makes the firm more efficient and in the long term it is time saving rather than time consuming.

One respondent (AF06) identified its aim in having a quality system is to reduce risk.

"The impact on the firm is to ensure that we can reduce the risks that we face as a business." (AF06)

All of the respondents were in agreement that there is a cost in implementing and having a quality assurance system.

"You can't have quality systems, procedures and controls without having costs." (AF06)

There was general agreement that although it is a regulatory requirement to have a quality control system, it is also a necessity and beneficial as opposed to just an additional cost. It was felt that a quality system should not be seen as a block in doing business but rather as adding benefit and value to the work that is conducted by the firm, although it wasn't felt that it increased the firm's profitability. The quality system should be imbedded within the firm's culture and become second nature. Once that is achieved it flows naturally.

The consensus was that having a quality system did not depend on the PABs monitoring process, but rather on the necessity of providing a value-added service to clients.

"I think that even if monitoring did not exist, there would be quality assurance processes one way or the other." (AF08)

Benefits to the Client

All of the respondents agreed that the firm's clients benefited from the firm having a quality control system in place and by being monitored by their PAB. Benefits that were identified included knowing the client's compliance dates and providing correct and timely advice. In general it was felt that a good working quality control system will add value to the service being provided to the client.

Four of the six interviewed expressed the view that the client probably does not know that the firm has a quality control system or that they are being monitored by their PAB which is in keeping with the findings of the POB (POB, 2010). It was felt that the client expects a quality service and that the person supplying that service is professional, competent and possesses the required skills and qualifications. One respondent (AF07) said that the process was probably invisible to the client.

"They expect a quality service and that's a norm." (AF07)

One respondent (AF07) expressed the view that clients felt that it was important that their accountant had a good reputation or the firm was reputable and a member of one of the PABs. Previous research indicates that clients prefer to use the services of high quality firms (Lennox and Pittman, 2010).

All the interviewees saw a quality control system as benefiting the client although they did not think that the client recognised that such a system or process existed.

Legal Term Accountant

The author questioned whether the term 'accountant' should be legally protected as the term 'auditor' is, because at the moment anyone can carry out any accountancy work, apart from statutory audits, without qualifications and are unregulated and unsupervised or monitored. The level of work that is available outside the regulatory process has been enlarged with the increase of the audit exemption limit for companies.

Five of the six respondents felt very strongly that the term should be protected. One respondent (AF06) stated that the nature of an accountant's work, the trust nature and the importance to the business community, means that not just anyone should be allowed to set up and call themselves an accountant. It was pointed out that an unqualified person has a cost advantage in that they do not have PAB membership fees, CPD training fees and may not have PII. It was felt that accounting standards were being lowered by not having the term protected.

One respondent (AF09) felt that it was very unfair that when someone spends five or six years of hard work and study qualifying to be an accountant in order to get a practice certificate, they then find that there are people offering the same services without any cert and that it is currently legal to do so.

All five respondents felt that the term accountant sits outside the monitoring and supervisory process and that it should be defined with systems and procedures in place.

All five felt that those operating outside of the monitoring process should be brought into the net and in order to do this the term should have legal status.

"Something should be done to get at those outside the profession to bring them in and regulate them." (AF11)

One respondent (AF07) felt that the fact that it is legal to practice and offer services to the public outside of the monitoring process is seen as having a detrimental effect on the quality assurance process

"It defeats the purpose of the regulatory process if some accountants are outside the monitoring process." (AF07)

One respondent (AF08) was less sure that the term should be legally protected. They felt that it would be difficult to define because the scope of an accountants work is so wide.

"The legislature has decided on the bits that need regulating and if they are not saying that bookkeepers need regulating then it would be illogical to try to protect a name that applies to everyone from that bookkeeper to the FD (Financial Director) of a listed company." (AF08)

This respondent also felt that members of the public in business would be able to distinguish between a professionally qualified and regulated accountant and someone who was practicing as an accountant but who was unqualified.

This is in contrast to the view of the other respondents. They felt that the general public do not understand the difference between qualified and unqualified accountants and the implications in terms of quality assurance and monitoring.

"I don't think that they would understand that an unqualified accountant is not monitored." (AF06)

"The big problem is that members of the public cannot distinguish between a professional accountant and someone who just calls themselves an accountant. People have come to me and said 'I always thought that he was an accountant'." (AF10)

4.3 The PABs View

This section deals with the views of the representatives of the two PABs who agreed to be interviewed. These interviews were also semi-structured and included questions relating to issues raised by the accountants in their interviews.

Frequency and Structure of Monitoring Visits

Both respondents were in agreement that about the frequency of visits to audit firms. Every firm that is conducting statutory audits receives a monitoring visit at least every six years. The visits are more frequent if the firm has not had a satisfactory outcome to their last visit. Any firm that is involved in the audit of a PIE will receive a visit every three years. Both respondents were confident that their respective PABs were complying with these commitments and the author had not found any evidence to the contrary in the interviews with practicing accountants from these two PABs.

The structure of the visits were quite similar with both PABs in that they have an initial meeting at the beginning of the visit, then select audit files at random for review and have a closing meeting to discuss the findings. Both PABs award a grade at the conclusion of the visit but one body also awards a quality accreditation to firms whose quality assurance system is deemed to have met a certain standard. This is an accreditation given by the PAB itself and not part of the mandatory process.

Firms not performing well in the reviews receive follow-up actions which, depending on the seriousness of the issue, could mean a re-review. Firms who have serious issues raised and do not make the necessary improvements will have their practicing cert withdrawn.

Both respondents were in agreement that although the monitoring process is focused on the regulatory area of auditing, non-audit firms can also receive reviews which are the same process but not as stringent. The visits are not as frequent.

Benefits of Monitoring Visits for the Firm

The monitoring review was described as a health check by one respondent (PAB02). It was pointed out that sole practitioners can be especially isolated and the monitoring process provides guidance. Having someone who has looked at hundreds of other practices come in and review a firm's systems and procedures can only be beneficial according to one of the respondents. Both respondents felt that the process lowers risk for the firm and this is important with litigation on the increase. It was recognised that firms complying with the monitoring process may get more favourable PII quotations.

Impact of the Monitoring Visits for the Firm

Both respondents were in agreement that the quality assurance monitoring process and visits placed a burden on the firm which agrees with previous findings from Bedard et al (Bedard et al, 2008). One respondent (PAB01) stated that, from the firm's perspective, having someone coming in and checking their work is very intrusive. It is recognised as being stressful for firms. It is also time consuming and costly for firms. In order to get a practicing cert firms have to have systems in place in order to comply with the PABs rules. The cost of the monitoring visits is also borne by the firms in an annual fee.

Benefits of Monitoring for the Client

Both respondents stated that the biggest benefit for the firm's clients was the quality of the service that they receive from a firm being monitored, although one respondent (PAB01) felt that the clients may not appreciate that it is happening. Both respondents felt that when a client engaged a member of their PABs, they could be assured that they would get a high quality service because the member would have had to reach a certain standard in order to pass the monitoring process.

Legal Term Accountant

Both respondents were very strongly in favour of the term accountant being legally protected. They both felt that members of the public were being misled into believing that when someone calls themselves an accountant that that person has passed exams and is being regulated.

One respondent (PAB02) stated that they did believe in freedom of choice and that if a member of the public wanted to engage an unqualified person then that was fine, just as long as they were able to differentiate between a qualified and an unqualified person.

Both respondents felt that the quality assurance monitoring process was not in any way devalued by the fact that the term accountant wasn't legally protected. They felt that the process itself is important and valuable but did acknowledge that there was part of the accounting industry outside the monitoring process and that there are unregulated accountants wrongly offering services to the general public.

4.4 The View from IAASA

The author concluded the interview process by interviewing Ian Drennan, CEO of IAASA. The interview was a semi-structured one and focused on the role of IAASA and its views on how the PABs monitor their members.

The Role of IAASA

Drennan began by pointing out that under the 2003 Companies Act the PABs were responsible for supervising and disciplining their members. That process is split into two areas with investigation and discipline being one and the supervision of the quality of members work being the other.

IAASA hold periodic meetings with the nine PABs under their remit and they assign a risk profile to each body. The factors deciding the risk profile include the size of the body, nature of issues identified previously and the general level of complexity of the body. IAASA meet with the PABs on a quarterly basis typically and then do an on-site supervisory review where they look at a number of areas of the PABs activities, so it is really like an audit of the PABs. IAASA seek information from the PABs on an annual basis, some of which is published in their annual report and some which is not published because it is confidential in nature. IAASA also have ad-hoc meetings with the PABs if an issue arises or if a problem or complaint is brought to their attention. Drennan stated that IAASA have greater interaction with RABs than with those bodies that are prescribed but who do not have the audit function.

IAASA would like to visit the PABs on an annual basis but due to resource constraints this is not possible so the bodies that are deemed a higher risk are visited more frequently.

If a member of the public makes a complaint to IAASA, they will try to ascertain if the individual or firm being complained of is a member of a PAB. If they are not, then it outside of IAASAs remit but if they are then IAASA will refer the complainant to the PAB so that the PAB can deal with the matter through their investigation and disciplinary procedures. All the PABs investigation and disciplinary procedures have been approved by IAASA. If the complainant has already gone through the PABs procedures and is not happy with the result, then IAASA will get involved and investigate it. If they find that the PAB involved has not acted appropriately and within its own procedures and by-laws, then IAASA can issue a statutory inquiry under section 23 of the 2003 Companies Act and if they find against the PAB concerned, they can annul the decision that the body has made.

When asked if he felt that the clients of firms are aware that they have this process available to them, Drennan replied that he thought, by and large, most clients are because it is be stated in their engagement letter. He stated that in general the main issue is that they are unhappy with the way a complaint has been dealt with.

IAASA have no direct interaction with members of the accounting profession, apart from some interaction with the larger firms regarding policy and future developments rather than regulation or co-role. Drennan stated that IAASA were unhappy with this model and have been so for some time. He did state that implementing the Barnier proposals would result in IAASA performing monitoring visits on firms conducting audits on PIEs rather than this being done by the RABs as is currently the case. This would affect the top eight or ten firms and could lead to public reports on these firms.

Drennan conceded that a few of the PABs are struggling to meet their statutory requirements in terms of the frequency of visitation to their members. He further stated that although the six year cycle is a long time, it is a big improvement on the way it was before that. Drennan said that IAASA would encourage PABs to look at the quality of members work in non-regulated areas but that there was no statutory requirement for them to do so.

Benefits for the Accounting Industry from the Establishment of IAASA

Drennan stated that members of the profession, practicing accountants, probably have not seen any impact from the establishment of IAASA because IAASA was not established to improve the accounting profession but to give confidence to the public as accountancy, and particularly the audit, is a public interest activity. The role of IAASA is to ensure that the PABs are doing their jobs properly by regulating their members correctly and if they are not, then IAASA will take the appropriate action.

Practicing accountants have seen this in the monitoring visits. There is now more of a robustness or rigor in the visits than there used to be. Small firms see the visits as being much tougher and though they may not feel that this is a benefit to them, Drennan felt that it was definitely beneficial to the clients who are using their services.

Drennan further stated that the role of IAASA was not to strengthen or underpin the reputations of larger firms who have had their reputation damaged in recent years but to enhance confidence in the profession as a whole by enhancing the way it's regulated.

Do Monitoring Requirements improve the Quality of Service provided by firms

Drennan makes a distinction between larger firms and smaller firms. The larger firms have their own internal monitoring which he feels was maybe more rigorous than the PABs but smaller firms would feel the effects of the monitoring visits much more so and this has certainly improved the quality of the services that they are providing. This is in agreement with Porters findings that the review process has the greatest impact on small firms (Porter, 1997).

Drennan felt that because the larger firms have good internal monitoring processes, it does not mean that the quality of their work is beyond reproach. Reports from other countries where IAASAs international counterparts, such as the POB in the UK, who go directly into firms say that there is room for improvement. Drennan states that if there is room for improvement in other countries then he believes there is also room for improvement here.

Drennan conceded that firms providing non-regulatory services may never receive a monitoring visit because the work that they are doing is low risk and the PABs do not have the necessary resources. He said that this is not the perfect scenario but the reality is that the audit function is the most important and that it is regulated.

Legal protection for the term Accountant

Drennan stated that the view of IAASA has been and remains that the term should be legally protected. He said that people procuring the services of an accountant should be able to rely on the fact that they have had the appropriate training. He acknowledged that unqualified accountants are able to provide services cheaper than qualified ones but there is no evidence to suggest that this is a major issue. There is no data to substantiate the scale of the unregulated accounting industry.

Drennan felt that professional accountancy is still an attractive and resilient profession even in the current difficult times. Accountants are still relatively well paid and having professional qualifications opens doors. The audit qualification is not as attractive as it was because of additional regulation and reputational risk but it is still reasonably well compensated, especially at the top end of the market.

4.5 Conclusion

This chapter examined the responses of the interviewees in the semi structured interviews. The accountants who were interviewed were very positive about the quality assurance monitoring process and felt that it was beneficial.

The PABs interviewed place most of their emphasis and resources into the monitoring of firms that are conducting audits. Their monitoring processes are in line with international best practice in terms of visit frequency and the format of the visit.

IAASA would like to have their role extended so that they would be able to have more interaction directly with firms as is the case in other countries and this may happen in the near future if the Barnier proposals are implemented.

CHAPTER FIVE

CONCLUSION

CHAPTER LAYOUT

Chapter Five: Conclusion

5.1 Introduction

This research was exploratory in nature and was undertaken to examine the quality assurance monitoring process within the accounting profession in Ireland. The study centred on the question as to whether the process adds value to the client using the services of an accountant or is just another cost to the firm. Following a literature review, a number of key areas were identified and some issues arose that the author felt would be best answered by members of the profession. The author chose semi-structured interviews as the method to collect the primary data from the profession. Data was collected from all sections of the profession by conducting interviews with accountants, representatives of the main PABs and with Ian Drennan of IAASA. This allowed all those involved in the industry to offer their perceptions and opinions.

5.2 Summary of Findings

Previous research from Alafaji (2007) indicated that a three year cycle was most appropriate for quality assurance monitoring visits. This statutory requirement in Ireland is for a six year cycle with PIEs being visited every three years. The primary data indicates that not all PABs are complying with this directive. Resource restrictions and ongoing investigations into financial institutions are having an impact on the frequency of visits by some PABs.

The process used by the PABs is similar to that used in other countries although there is some diversity between the bodies in terms of grades awarded and their approach to the quality end of the visit.

All respondents were very positive in their attitude towards the monitoring visit and felt that although there was a cost involved, it was a beneficial process. The larger firms do not feel the impact of the monitoring visit as much as the smaller firms although smaller firms do gain more benefit from them as it tends to improve their systems and procedures more. It was stated that the monitoring process alone does not ensure that a quality service is provided to the client but it does help improve those who are not providing services at an adequate standard.

The initial setting up of a quality control system is time consuming but thereafter does not prove burdensome. It was generally felt that a quality system has to become embedded in the culture of the firm and by achieving this, the monitoring visits become less stressful and can be used to further tweak and improve the existing system.

It was generally felt that clients do not understand the benefits they receive from the firm having a quality system and monitoring visits. This is in agreement with a previous report from the POB (2010) in the UK. When the client engages an accountant, they expect a quality service to be provided. Accountants and firms providing non-regulatory or non-audit services are not subject to the same stringent monitoring visits as those firms providing audit services, although because they are a member of a PAB they are subject to a certain level of supervision. Accountants who are not members of a PAB are not subject to any monitoring. The increase in the audit exemption threshold means that more accountants are being subject to less monitoring.

The fact that the term accountant is not legally protected is an issue for accountants and the PABs. They feel it is damaging for the profession because it allows people to provide services outside of the monitoring and supervisory process. Although IAASA are in agreement that the term should be protected, they question the extent of the problem. They also state that the services being provided outside of the regulatory areas are low risk. This contradicts the view of the PABs who require members to pass exams and complete three years of experience before they will issue a practicing cert to their members so that they can provide those same services to the public.

This research finds that the monitoring process in the regulatory areas such as auditing to be effective and well received by the practicing accountants. There are some discrepancies between the PABs regarding frequency of visits and the structure of the visits. The monitoring process is focused on the audit function and outside the audit function the process is much less rigorous.

5.3 Recommendations of Future Study

Several areas of future study have been identified. The research has identified an area of the accounting profession that is outside of the monitoring and supervisory process. An investigation into this area would be beneficial as it could quantify the level of work that is being performed, the extent of the services being provided and the quality of those services.

The requirement which the PABs place on members before they issue practicing certificates is also an area for future research. The level of competency that the PABs demand is much higher than that which the statutory regulators necessitate. An investigation in this area would determine which approach is the most appropriate.

5.4 Concluding Remarks

The aim of this research was to determine if the quality assurance monitoring process of the accounting profession added value to the services that are being provided by accountants to their clients or is it just an additional cost to the firm.

This research concludes that the monitoring process does add value for the client. Clients of smaller firms gain more benefit from the process than clients of the larger firms, although the clients do not necessarily recognise this. The monitoring process in regulatory areas is robust but there are questions surrounding the supervision of accountants providing services outside the regulatory areas.

There is undoubtedly an additional cost in implementing a quality system that satisfies the monitoring process but that cost is minimal when compared to the benefits of having an efficiently run office. An effective quality system is cost effective in the long term.

Professional accountants in Ireland adapt well to regulatory changes and want to provide a quality service to their clients. Changes in regulations may suggest that the PABs have to look at how they enrol and supervise their members in order to ensure that the profession continues to provide the current standard of client service.

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