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MSc in Accounting and Finance Management

Evaluating the impact of auditor liability on small to medium tier firms and the cost of implementing quality standards in Ireland

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I certify that the dissertation entitled:

Evaluating the impact of auditor liability on small to medium tier firms and the cost of implementing quality standards in Ireland, submitted for the degree of: MSc in Accounting and Finance Management is the result of my own work and that where reference is made to the work of others, due acknowledgment is given.

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Dedication

I want to dedicate this dissertation to my wife Florence Mhlanga, my mother Dorothy Moyo and my extended family for their guidance and encouragement through my studies. I have made it this far because of their prayers and support.

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Abstract

Auditor liability and the cost of implementing quality standards is a concern not only for legislator's/regulators but also for the auditing firms involved in Ireland. The purpose of the dissertation is to identify the sources of auditor liability and the methods to reduce their impact and to consider the implications for small to medium tier firms in Ireland in employing those methods to increase audit quality, reduce auditor liability and therefore allow them to be more competitive in the audit market. The growing divide between larger and smaller to medium tier firms is exacerbated by the expectation gap coupled with a limited financial base needed to sustain a defence against litigation. Due to this limitation of financial resources compared to larger firms the potential negative effect on small to medium tier audit firms could be an uncertain financial future. To be borne in mind is that audit firms are business enterprises that pay tax to the government and employ people. Therefore unsustainable effects of litigation cases need to be avoided and stakeholders involved need a constructive solution that will address the issue of auditor liability and the costs involved of implementing quality. The relationship between the stakeholders involved is finely balanced as a one-stop solution may potentially have negative effects as some stakeholder's views will be ignored and not taken on board. This may have an adverse effect of perpetuating the issue. Pre-acceptance procedures, training and risk assessment are recommendations made that could be used as a platform to begin the process of addressing the issue of liability and the costs associated with implementing quality standards to improve on auditor firm competitiveness.

Iphithule Mhlanga

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List of Abbreviations

CSO	Central Statistics Office
IAASB	International Accounting and Auditing Standards Board
IFAC	International Federation of Accountants
ISA	International Standard of Auditing
ISQC	International Standard on Quality Control

1. INTRODUCTION

1.1 Researchable topic

The main purpose of an accounting conceptual framework as identified by Ruhl and Smith (2013) is to ensure that entities report to shareholders and stakeholders the true and fair view of the financial position of the company through its financial statements. In order to verify this true and fair view, auditors are then hired as discussed by O'Sullivan (1993) to assess and pass an opinion on whether the financial statements have been prepared in accordance with the true and fair view principle. In a simplistic nutshell auditors are then hired to give a certain level of assurance, though not 100% it must be emphasised, based on obtaining sufficient appropriate evidence through the audit process. In order to pass the opinion the audit process needs to be designed in order to detect material misstatement in the financial statements as a result of fraud or error or any other irregularities that would be identified in the scope of the audit engagement.

Once completed, the findings need to be communicated back to the shareholders and stakeholders through the audit report, which must comply with International Standard of Auditing 700 (ISA 700) in Ireland (Cosserat 2004, p.54). A tension begins to form at this point of the audit process. The expectation gap becomes a central issue in the whole process. One of the major difficulties facing auditors is how the public views them and what the public expect their duties to be versus their actual responsibilities. This skewed view discussed by Deng et al. (2012) has both negative and positive implications for auditors.

1.2 A brief background

The collapse of Enron in 2001, a large American public listed company based in Texas listed on the New York Stock Exchange, which traded in commodities, provided services and energy, had a major impact on financial reporting and auditing not only in the United States of America but also on a worldwide basis. Suddenly the auditing profession was thrust into the spotlight eventually leading to the eventual collapse of one of the Big 5 accounting firms Arthur Andersen in 2002 (Squires & Squires 2003, p.10). This collapse signalled a shift in the auditing profession.

The knock on effect several years later, has led to a more burdensome regime on auditors as discussed by Lambe (2005). The joint and several liability principle, particular to Ireland, highlights this challenge as all partners in the firm, regardless of their participation in the audit process or particular engagement, become liable where it is deemed that an engagement partner may have acted negligently or may have committed a criminal offence. The proportion of liability attributable to the auditor for shareholder losses in the event of company failure is not consistent with the damages awarded against the auditor. A consequence of this element of the legal requirement has resulted in massive payouts awarded against auditors in the case of company failures. This liability has negative consequences for the audit firm as it erodes on both revenue and reputation capital (Deng et al. 2012). The knock on effect of such a stance is that it is becoming increasingly difficult for audit firms to turn profits on audit engagements and proving more costly to implement recommended quality policies, procedures and standards that are designed to enshrine quality in the audit process thereby producing a more reliable audit report.

Considering the policies, standards, procedures and regulations governing auditors, cases being presented in Irish courts such as the administrators of Quinn Insurance Ltd pursuing PwC for €1 billion citing negligence in the way in which the company financial statements were audited (Healy 2013). These cases are not only costly to the larger audit firms, the smaller firms are unable to compete for Public listed and large private company audits as their resources are unable to match not only the demands of the audit engagement but also any potential liability that may arise.

1.3 Ireland: Nature of businesses and firms

A report by the Central Statistic Office (CSO) in 2012 noted that the Irish economy is dependant on multinational companies with 54% of the total work force employed by the multinational companies (Office n.d.). The reliance on the bigger multinationals would suggest that if a statutory audit were to be performed the firm conducting the audit would need to be able to meet, through resources, the demands of auditing these big companies.

In Ireland firms known as the Big 4; KPMG, EY, Deloitte and PwC all collectively generated close to €1 billion in fees in 2014 according to Reddan (2015). These firms are the biggest and largest in an Irish setting, followed by middle tier firms and finally smaller firms. With such a structure it would mean that the Big 4 dominate the auditing market place however if there is a negative impact on one of them, firms below may potentially be affected by the negative effects. Due to the financial resources the Big 4 have, this has led to a view that all auditors have deep financial pockets and therefore should be pursued in cases of corporate failures with negligence of the auditor being cited as a reason for the action being taken (Deng et al. 2012).

1.4 Reasons for research

The chosen topic "Evaluating the impact of auditor liability on small to medium tier firms and the cost of implementing quality standards in Ireland", began with an interest that arose as a result of an assignment, during the course of the semester, requiring the evaluation of auditor liability and its impact on competitiveness in the audit market.

On completion of the assignment what emerged was that auditors face a number of challenges that impact their work and also their profession as a whole. Whether justified or not, an interest arose looking to evaluate how these challenges on the whole affect the audit profession. On one hand the audit profession is seen as vital in providing some assurance to company stakeholders through an opinion passed, based on evidence gathered whether the financial statements have been prepared to reflect a true and fair view. On the other hand audit firms are commercial enterprises that are part of a wider economic engine that employs many people and provides revenue to the government through taxes paid.

Muted from the whole discussion were the auditor's viewpoints on liability and its impact. This is not to suggest that the auditors are not vocal regarding their plight, as demonstrated by Lambe (2005) who identifies a number of challenges faced by auditors. However, on balance, what was being reported and emerged is the challenge of having to constantly be aware of legislation, standards and stakeholders involved.

Considering the Irish context smaller to medium-tier firms are unable to compete for large private and public listed company audits. The researcher is keen to evaluate the reasons for this inability to compete actions being taken by smaller audit firms to avoid potential liability and the impact on quality standards.

1.4.1 Research objectives and outcomes

The reasons for conducting this research are to try to establish a clearer insight into the current operational environment that small to medium tier audit firms face. Therefore the main research objectives are

1. To assess the overall audit process and identify areas where liability may potentially arise.

2. To consider the impact the expectation gap, the industry and client company management have on the audit process and effectiveness of current efforts to alleviate the impact.

3. To evaluate the implementation of quality standards, policies and procedures in order to assess if the costs involved with implementation are a factor in achieving high quality standard audits.

A desired outcome of this research is to contribute to the existing dialogue on auditor liability and how to reduce it.

In light of the literature reviewed and the current situation of small to medium tier firms, the researcher would aim to add to the dialogue surrounding the issue of auditor liability in Ireland, in particular shinning the spotlight on small to medium tier firms and how laws and regulations affect them as commercial entities in making commercial decisions.

1.5 Structure of study

In assessing these objectives the dissertation will be organised using the following format.

Chapter 2: Chapter 2 involves a literature review that will assist the researcher in further exploring the researchable topic. Through reviewing the literature the researcher aims to gain an insight into areas already identified around the topic. The literature review acts as a compass ensuring that the study is focused and guided in the appropriate manner. A conceptual framework is included to guide the researcher in the primary data collection phase using appropriate themes.

Chapter 3: Research Methodology: Including a discussion on the research methodology will aim to inform the reader of the choices the researcher made in evaluating the researchable topic regarding data collection methods, philosophies in research, how data will be analysed and the research strategy.

Chapter 4: This chapter will discuss the findings of the primary data gathered and make comparisons to the existing literature rhetoric.

Chapter 5: A discussion on the limitations involved in the research process will be presented. Further research may be needed and this chapter discusses the contributions the research may make to the current debate on the topic.

Chapter 6: Includes all of the references used in the dissertation process.

2. LITERATURE REVIEW

Ruhl and Smith (2013) identify that the purpose of a conceptual framework in accounting is to ensure entities report back, to the shareholders, the economic state of a company or the true and fair view of its financial position and performance. Auditors are then hired to assess and reach an opinion on whether the company financial statements have been prepared to demonstrate this true and fair view. This process is called a statutory audit and forms an important part of the financial reporting process (O'Sullivan 1993). Through this process auditors have to design the audit in order to detect material misstatement as a result of fraud, error or other irregularities in the financial statements (Greg Burton et al. 2013).

In the process of hiring auditors, there are variables that are at play simultaneously. Ping Zhang (2007) identifies that there is an expectation gap. This expectation gap is the difference between what the public expect from an auditor and the actual performance of an auditor (Ping Zhang 2007). Porter (1993) further explains that merely terming it an expectation gap is not sufficient in describing what society expect. The concept of an expectation performance gap is postulated thereby trying, with a measure of accuracy, to define what society expect of the auditor (Porter 1993).

2.1 Expectation Gap

The public, according to McEnroe & Martens (2001), expect auditors to be involved in monitoring company management, decisions taken by management and detecting fraud. In an effort to reduce this misunderstanding, better communication between the auditors and the public has been cited as a way forward. However this has not reduced the gap (Ping Zhang 2007). A major stumbling block, identified by Ping Zhang (2007), for this occurring, is that the public or shareholders want absolute certainty that all areas of the financial statements have been audited. However this is not possible due to the inherent limitations in the audit process.

Evidence of the expectation gap not closing is noted in 2003 when the International Accounting Standards Board issues a draft audit report format, then formally adopting it in 2006 (Gray et al. 2011). The public still carry this expectation, and the constant reforming of the audit report over time is a symptom of the underlying expectation gap.

In addition to the perception held by the public of auditor responsibilities, McEnroe and Martens (2001) further note that the expectation gap is not a new phenomenon and that the expectation gap encompasses what the auditors think their responsibilities are versus the perception held by the public of what the responsibilities and duties of the auditors are.

2.2 Auditor's responsibilities

What is clearly emerging in the whole discussion of the relationship between the auditor and the general public is that the general public assign certain responsibilities to the auditor. Sale (1981) notes that due to the increase in commercial bankruptcies, organisations collapsing and entities failing, auditor scrutiny has increased. This is due to the perception that auditors are seen as guardians and mediators for the pubic/shareholders in keeping management in check (Sale 1981).

A major cornerstone for the auditing profession is the need to maintain and practice independence. In his discussion Cosserat (2004, p.11) notes that independence is of great and significant importance in order to provide opinions that are credible. As a result, governments are continually looking to shore up the independence of auditors. The Sarbanes-Oxley Act in America, though not applicable to the European jurisdiction, is an example of the need for auditors to continually maintain their independence. Which is written in the legislation A major factor identified by Tepalagul and Lin (2015) is that if independence is compromised, this could lead to an impact on quality.

That being said Sale (1981) highlights that in the past the practice of auditors getting into the inner circle of the management, monitoring their social and personal dealings and encouraging their own staff to become members of associations and clubs that the management are a part of, was prevalent.

2.2.1 Ethical considerations

Central to the auditor being able to conduct the work assigned to them is the need to bear in mind ethical requirements. What is clearly defined by the International Standard on Quality Control 1 (IAASB) is that the firm must have policies and procedures that require the personnel to comply with all ethical requirements (Morris 2009). Duska (2005) further echoes this view point identifying that, since accountants/auditors are in privileged positions in terms of information access and are deemed as gate keepers, professional skepticism should always be a priority.

Duska (2005) further explains professional skepticism as a critical and questioning mind, which applies all the skill and knowledge to conduct an audit in an objective manner including integrity. Further to this, Cosserat (2004, pp.66–72) discusses the professional requirements of the auditor. He identifies integrity, professional competence and due care which requires the auditor to maintain the skill and knowledge levels up to date, objectivity which requires the auditor to remain unbiased, confidentiality which restricts any disclosure of information and professional behaviour which will not bring disrepute to the profession. All these professional and ethical requirements are enshrined in auditors Code of conduct. Ethical requirements further identifies the need for the firm to have procedures that will assist the leadership and other personnel to promptly report threats to independence in order for prompt and decisive remedies to be applied (Morris 2009).

2.2.2 Threats to independence

In addition to thinking about their ethical responsibilities, auditors have another responsibility and that is to ensure at all times, independence is maintained. Independence encompasses and underpins objectivity and deals with financial, employment, business and any other personal relationships that may exist between the auditor and the client (Financial Reporting Council (Great Britain) & Chartered Accountants Ireland 2014, p.21). Tepalagul and Lin (2015) note that auditor independence is important for audit quality and note that certain activities may give rise to the independence being affected or the perceived independence reduced, with Blay (2005) noting that independence is one of the most valued assets possessed by the auditor.

One of the areas cited that has the potential to affect the auditor is through the provision of non audit services (Tepalagul & Lin 2015). Not that it is prohibited, auditing firms, according to Financial Reporting Council (Great Britain) & Chartered Accountants Ireland (2014, p.83), need to consider safeguards which will eliminate threats or reduce them to an acceptably low level. Auditing firms are commercial entities who look to make economic decisions, which will leave them in a favourable financial position just as any other business would make its commercial decisions (Tepalagul & Lin 2015).

Tepalagul and Lin (2015) note that some of these commercial decisions involve the provision of non-audit services that retain higher revenues. Svanström (2013) highlights the potential negative effect of providing these non audit services is that auditors may fall into the danger of assuming managerial roles through providing advice and generally socially bonding with the client.

This self interest threat may cause the auditor to be perceived to lose their independence due to the economic dependence on the non audit service fees leading to a compromise in audit quality (Tepalagul & Lin 2015). The familiarity threat is a knock on effect of another threat to auditor's independence, which is self interest and this self-interest may cause, according to Blay (2005), auditors to be sensitive to the client and their preferences due to the economic interest involved in the provision of non audit services. That being said, Blay (2005) notes that those making the client acceptance decisions usually use the cost versus benefit thought process to make an economic decision of whether to accept the client or not.

Svanström (2013) highlights that regulators are keen for non-audit service provisions not to affect the auditor's independence. This further echoes what is enshrined in ISQC 1, where auditor independence should be highly maintained and enshrined throughout the firm through its policies and procedures (Morris 2009). Why is the provision of non-audit services a concern for regulators? It is a concern because, as identified by O'Sullivan (1993), an audit is conducted to review the financial statements of a company. Through the process of reviewing, an audit opinion would need to be passed to attest whether the financial statements represent a true and fair financial view of the company (O'Sullivan 1993). This then raises a tension for the firm if it has been involved in the provision of non-audit services. It would need to review its own work, according to Greg Burton et al (2013), by designing an audit process that aims to detect material misstatements due to fraud or error. A self-review threat then arises as a consequence. A self-review threat, as set out by Financial Reporting Council (Great Britain) & Chartered Accountants Ireland (2014, p.91), will exist when non audit work conducted for the client has to be reviewed by the same firm during the audit process.

On the other hand Wyman (2004) argues that even though independence is important, it is only a means to an end. Wyman (2004) cites that the audit process should instil quality and takes it further by arguing that it is the person involved in the audit who should at all times focus on quality standards echoing the argument put forward by Keenan (2008), which focuses on the individual being professional and competent to conduct an audit.

Continuing on that same trajectory, Svanström (2013), and Tepalagul and Lin (2015) note and postulate that there is an argument for closer working ties with clients, through the provision on non-audit services, as this increases the auditors knowledge of the client and the industry they operate in meaning more effective and efficient audits being conducted.

2.3 Consequences of Expectation Gap and Liability

As identified by Porter (1993) and Ping Zhang (2007), the expectation gap has a significant bearing on the perception of auditors. As a consequence Ping Zhang (2007) identifies that there is a correlation between the expectation gap and the rise in litigation cases. The view that an audit is a comprehensive process is usually applied and cited as a cause for pursuing auditors. This means that auditors face a stringent operational environment where both criminal and civil suits can be brought against them (Gray & Manson 2000, p.544). Of great concern is that the lawsuit may also arise from an unconnected third party (O'Sullivan 1993).

Using methods to reduce the occurrence of such instances such as disclaimers as identified by Keenan (2008) this then challenges the notion of professionalism. Keenan (2008) states there is an argument that a professional's work should stand any test. Further to this some professional bodies differ in view regarding the use of the disclaimer (Keenan 2008). Their main concern is that a disclaimer devalues the audit process and reduces public confidence in auditors. Various regulatory authorities have considered a number of ways of reducing auditor liability. These include regulatory caps, proportionate liability and financial reporting insurance (Smith 2012).

Once a case is brought against the auditor, Willekens et al (1996) identifies that tests for negligence would be needed to prove liability however this negligence would not be known until the audit process is completed (Hall & Renner 1991). This test of negligence is still an important issue to auditing firms as identified by Cornell et al (2012). Such is the scale of the liability problem that it has led the Financial Reporting Council, the auditor oversight board in Ireland and the United Kingdom, to issue calls for discussion on the liability regime (Alvarado 2008) and whether a new regime is needed to limit the auditors liability.

2.4 Liability regime and cases

As a result of corporate failures or corporate mismanagement, Lambe (2005) and Pathak and Pelekis (2007) both identify that the liability regimes are increasing and becoming too excessive for auditing firms. The current liability regime in Ireland is governed by Dáil Éireann through the passing of the Companies Act 2014. The Companies Act 2014 looks to ensure that the people who conduct audits are appropriately qualified to do so, appropriately supervised, maintain high levels of perceived and actual independence and ensure that they conduct the audit work to the highest professional standards (Baker 2014). The Companies Act 2014 sets out the various areas which affect auditors such as qualification for appointment, prohibitions on appointment, appointment, resignation, removal and standard of care owed by auditors to mention a few (Book 2015).

2.4.1 Joint and Several Liability Principle

In an Irish context, the joint and several liability principle is of great importance. Lambe (2005) describes this principle as being burdensome on auditors as directors of company's may act fraudulently, resulting in possible liability. As discussed by Gray & Manson (2000, p.544), auditors can be pursued through civil actions or criminal charges may be brought against them (Finley n.d.).

This is of major concern, a sentiment echoed by Lambe (2005), as it means, through the principle of joint and several liability, all partners in the firm, regardless of their participation in the audit process or particular engagement, become liable where it is deemed that an engagement partner may have acted negligently or may have committed a criminal offence. What is strenuous about this regime is that their personal assets are at risk of being appropriated if the claim is successful. What is clear to note is, if the claim were to be successful, the auditor, according to Deng et al (2012), suffers on two fronts, reputation capital and financial loss.

Lambe (2005) then further suggest that for auditors to reduce their exposure, firms should have professional indemnity insurance. However this creates a set of problems on its own, as auditors are then deemed to have deep pockets as a result (Lambe 2005) (Deng et al. 2012).

With all this regulation and guidance, cases make it to the Irish courts where, disgruntled shareholders and investors want the auditors to be accountable for the losses suffered. Auditors may not have been responsible for the full loss, so the principle does not only hold them to account for their own actions but the actions of others.

When performing their role as auditors, there is a prescribed level to which they are required to act and to conduct their duties. The standards are there to ensure that the quality of the work is of a high standard ensuring that all regulatory, statutory and auditing standard requirements are met allowing the end user to place increased reliance on the audit report and the financial statements. Failure to do so can lead to auditors being pursued under civil or criminal law.

A civil action may be taken against the auditor if deemed to have acted negligently (Gray & Manson 2000, p.544) or the shareholders feel that the auditor has not met their contractual duties (Finley n.d.). The civil action will be taken against the auditor when the work conducted falls below a high standard causing the end users to suffer economic losses. In the court of law, for the civil suit of negligence to be successful, the plaintiff would be required to prove that the auditor owed them a duty of care and the loss quantifiable. The action will only succeed if they are able to prove this duty existed (Gray & Manson 2000, p.545).

When a contractual agreement exists between the auditor and the client, duty of care would be evident, however the difficulty lies in trying to prove that same duty exists between the auditor and 3rd parties (Gray & Manson 2000, p.545). Auditors can be sued under the law of tort if third parties prove that the auditor owed them a duty of care and they suffered a loss as a result of auditor negligence (Finley n.d.). Criminal action may be taken against the auditor where they have failed to perform their duties and knowingly or recklessly provided a misleading and false audit opinion (Finley n.d.).

Cases that have gone through the courts include the Caparo Industries PLC vs. Dickman and Others (1990) case. This case involved a takeover bid by Caparo Industries of Fidelity, where Caparo subsequently claimed that the accounts were inaccurate and a loss of £400,000 was not reflected. Touche Ross, the auditors of Fidelity were subsequently pursued because Caparo claimed that Touche Ross should have known that investors and shareholders would likely rely on the audited financial statements and

Touche Ross didn't highlight this discrepancy. The courts held no duty of care was owed to Caparo (Nolan et al. 2013, pp.28–29).

Another case that has shaped the course of auditor liability involved ADT Ltd v. BDO Binder Hamlyn (UK) (1996) (Nolan et al. 2013, p.42).The details of the case involved ADT Ltd which was looking to take over Britannia Securities Group. Binder Hamlyn issued an unqualified audit report during this period. During the process of the takeover, a Partner in Binder Hamlyn attended a meeting where they attested that the financial statements of Britannia Securities Ltd were true and fair. It was then subsequently discovered that a valuation of £105 million was incorrect and that Britannia was valued at only £40 million realising a net loss of £65 million. Ultimately the judge held that Binder Hamlyn owed a duty of care to ADT as they were invited to the meeting and knew that there would be reliance on the financial statements by and auditor opinion thereon ADT Ltd. The judge awarded the difference to ADT Ltd however Binder Hamlyn subsequently appealed, with the case being eventually settled out of court (Nolan et al. 2013, p.42).

There are some cases, which have recently been presented to the courts for consideration. Healy (2013) cites the case of PwC being currently sued by the administrators of Quinn Insurance Ltd for an eye watering €1 billion. They cite negligence in the way the company financial statements were audited. Another case brought to the courts involves Irish Bank Resolution Corporation (IBRC), formerly Anglo Irish, against its former auditors EY claiming damages of €50 million for failing to uncover improper financial conduct (Carolan 2014).

2.4.2 A new regime

With this in consideration, Lambe (2005) and Willekens (1996) identify that without addressing the legal regime of auditors, the impact of outcomes of lawsuits and the effect of the results on firms and the profession, it would be impossible to address the liability issue. Greg Burton et al (2013) notes that excessive liability regimes may have consequences on a global scale economically. The natural consequence as identified by Laux & Newman (2010) is that firms are increasingly unwilling to take on new clients because of the risks attached to these companies. However this view can be countered with the views put forward by Hall and Renner (1991) and Fenwick Huss and Jacobs

(1991), which note that pre-acceptance procedures can be used in reducing the potential exposure to risk when contemplating taking on a new client.

Contrary to this, Deng et al (2012) argues that an increase in auditor liability has led to a reduction in corporate failures. Deng et al (2012) cites that in an event of an audit failure, auditors face not only legal liability but also criminal prosecution. The consequence of this is both losses in revenue and reputation capital being eroded. They suggest that by having this threat of punishment it could be seen as an incentive for the auditor to detect the misstatements. However Lambe (2005) notes that it may not all be the auditors failure to detect misstatements or fraud. Lambe (2005) highlights that those perpetrating the fraud are often the ones responsible for putting the financial statements together, company management or failed internal controls.

In stark contrast to Deng et al (2012), Lambe (2005) then counters this viewpoint as not being an effective argument as the fraud is being perpetrated well before the auditors come in. Lambe (2005) further suggests that these punitive actions on auditors is an increasing concern not only for the profession but also on the human resources side where it may be a challenge to recruit top talent to the profession.

To ensure that auditors are able to navigate the legal waters and avoid litigation cases being brought against them it then raises a tension for the auditing firms. Will the audit acceptance, planning and execution procedures be sufficient to reduce the potential risk? In their discussion Pierce and Sweeney (2004) recognise that due to the audit profession becoming commercial the tension between the need to ensure high professional quality audits versus ensuring commercial viability now exists.

2.4.3 Risk: Assessment and Acceptance procedures

Importantly regarding the auditors, the level of risk attaching to a client will determine whether the firm would be willing to take them on as a client (Laux & Newman 2010). Fenwick Huss and Jacobs (1991) note that pre-acceptance risk analysis of a client is crucial as it will have a bearing on how risks are dealt with by the firm. Further to this, they present the view that the acceptance procedures should be a very important part in the audit process.

Hall and Renner (1991) identify factors which auditors should bear in mind when accepting a new client. One of these factors centres on client acceptance. They postulate that auditors need to be hard nosed, risk savvy and possess the appropriate acumen to accept a client. Ayers and Kaplan (1998) note due to the need to expand commercially firms now face the risk dilemma of whether to accept or decline a client.

However Hall and Renner (1991) note that key information may become available at the end of the audit process. Their viewpoint is that at this point it would be essential for the auditor to react to this information. The risk issue then comes to the forefront again as discussed (Ayers & Kaplan 1998).

Quick (2012) identifies that pre-acceptance procedures that firms have to conduct may lead to high or increased audit costs. This then gives rise to a tension; should the firm focus on the cost of the pre-acceptance procedure as identified by Quick (2012) or focus on the risk assessment procedure as a way to reduce potential liability as identified by Fenwick Huss and Jacobs (1991), Hall and Renner (1991) and Ayers and Kaplan (1998).

However to add to the dynamics, Lim and Tan (2008) postulate that if firms specialise in certain industries then they are capable of building expertise in the field. Through building this expertise, an incentive for the firm arises to ensure the maintenance of their reputation capital. Lim and Tan (2008) further note that firms who specialise in certain industry's are more likely to follow and apply the relevant audit standards for that industry.

2.5 Role and importance of quality

Central to the auditing industry and enshrined in ISQC 1 and ISA 220 is quality (Morris 2009). Considering the discussions and issues being presented by other authors, Pierce and Sweeney (2004) put forward the idea that once the audit is compromised due to the cost versus quality issue, the knock on effect would be a compromise in the audit quality based on the behaviours of the individuals involved in the process. These behaviours may include signing off on audit steps when the actual work has not been performed (Kelley & Margheim 1990). Oliverio (2007) then further argues that it is the responsibility of leaders within the firm to enshrine quality throughout the organisation from the top down.

The International Federation of Accountants (IFAC) then becomes an important organisation for auditors. It ensures that the audit process is conducted in a professional manner through setting International Standards of Auditing (ISA) through the International Accounting and Auditing Standards Board (IAASB) (Kleinman et al. 2014).

A major pillar enshrined in these standards is the importance of quality. International Standard of Auditing 220 (ISA 220) is also an essential auditing standard. The major focus of this standard, according to Financial Reporting Council (Great Britain) and Chartered Accountants Ireland (2014, p.295), is to ensure that all parties involved in the audit process, the auditor and engagement quality control reviewer, know their responsibilities and duties regarding quality control. It sets out the main objective of the auditor as the implementation of quality control procedures that will give the auditor reasonable assurance that, compliance with the appropriate regulatory and professional requirements have been adhered to and the report is issued to reflect the circumstances (Financial Reporting Council (Great Britain) & Chartered Accountants Ireland 2014, pp.295–296).

The standard is comprehensive guidance for the auditor to ensure that appropriate documentation is maintained of the audit process, appropriate leadership and guidance is exercised to ensure overall quality on engagements, appropriate monitoring systems are in place that ensure the systems of quality control are effectively operational and places emphasis on the individuals conducting the audit to enshrine quality through the process (Financial Reporting Council (Great Britain) & Chartered Accountants Ireland 2014, pp.298–303).

The IAASB enshrine quality through its Framework which looks to raise awareness of audit quality, encourage all the stakeholders to search out other ways to improve audit quality and to engage the stakeholders in constant communication surrounding this area (Demirkan et al. 2013). Another important element of the framework as discussed by Demirkan et al. (2013) is that the framework looks to address the need for a coordinated effort to address the expectations of stakeholders involved. This is deemed important, as it would mean, on a global level, a better-integrated financial system with better information symmetry.

Further to that, the International Standard on Quality Control 1 (ISQC 1) is an important standard, which auditors are required to apply in all their dealings and conduct. The standard is important as it gives guidance and most importantly identifies the firms responsibilities regarding its systems of quality control (Morris 2009). The standard is comprehensive as it looks at the whole firm, the personnel, ethical requirements, documentation, audit performance, leadership responsibilities and acceptance and engagement practices (Morris 2009).

Quick (2012) whilst discussing the European Commission's efforts to restore confidence in financial statements, defines quality as the ability of the auditor, through the audit process, to detect material misstatements in the financial statements and issue an appropriate opinion based on the evidence gathered. The spotlight then shifts to the auditor and their procedures to ensure that they are able to meet the demands of ensuring that an appropriate audit opinion is issued. Smith (2012) notes that auditors play an important role in the financial world and as such investors have a perception that quality needs to be enshrined in the audit process for them to have confidence in the financial statements. Again the expectation gap comes into play, requiring the auditor to act in a manner that enshrines quality. Additionally, Cornell et al (2012) note that when faced with potential litigation auditors will always refer back to the quality of their work to reduce any appearance of negligence on the auditor's part.

Whilst considering the need to enshrine quality to ensure that stakeholders have confidence in the financial statements, its note worthy to highlight and stress, that auditors, depending on the engagement terms, are not obliged to test all the areas of financial statements as this would be costly and time consuming (Quick 2012). As a result the implementation and execution of the audit plan becomes crucial, ensuring all steps are taken to enshrine quality and that dysfunctional behaviour is mitigated or reduced.

What then is brought to the forefront, as discussed by Oliverio (2007), is that those leading the firms are responsible for ensuring quality standards are implemented on a firm wide basis. As noted earlier by Morris (2009) ISQC 1 is important as it requires firm leaders to have in place appropriate policies and procedures that deal with all aspects of running the firm. However Pierce and Sweeney (2004) and Liu and Wang (2006) are of the view that due to the inherent nature of the profession such as time pressure and multiple assignments being conducted simultaneously, this may lead to dysfunctional behaviours which if unchecked could cause both the audit process and quality to be affected.

2.6 Conclusion

What is clear from the literature is that there needs to be a revision of the current legal regime of auditors as discussed by Lambe (2005), Pathak and Pelekis (2007) and Willekens (1996). Also emerging from the literature is the tension between audit risk and commercial decisions to grow as discussed by Ayers and Kaplan (1998). They realise that audit firms are still commercial entities however they also need to reduce their exposure to risk. Fenwick Huss and Jacobs (1991), Hall and Renner (1991) and Ayers and Kaplan (1998) note that this exposure to risk can be reduced through the acceptance procedures.

What has also emerged from the literature is that the audit profession in itself has inherent operational characteristics, such as time pressure as identified by Pierce and Sweeney (2004), which may cause individual dysfunctional behaviour such as omitting audit steps highlighted by Kelley and Margheim (1990). This then raises the question of the training and leadership that may be needed to avoid this occurring.

The revision of the legal regime may have consequences on the profession either improving or continually making it difficult for auditors. Lambe (2005) notes that, an unintended consequence of the liability regime left unchanged, would be the reluctance by auditors to audit certain industries/clients due to the high risk posed. However what is clearly evident from the literature is that auditors are still needed by investors, shareholders and other relevant stakeholders because they are integral in the overall financial scheme as discussed by Smith (2012), O'Sullivan (1993) and Gray et al. (2011).

What is not clear is how best to tackle the issue. Oliverio (2007) argues for firm leadership to enshrine quality in the firm, Deng et al (2012) maintain that disclaimers are not a progressive way forward and Pierce and Sweeney (2004) and Liu and Wang (2006) recognise that there are inherent variables at play which could affect both audit quality and process. Added to this is the view taken by Fenwick Huss and Jacobs (1991) that pre-acceptance procedures need to play a much more prominent role in the audit process.

The question is then raised of whether it is down to the person, the process, the expectation gap or the outcome, where the liability issue can be addressed. According to Keenan (2008) some accounting bodies are against some of the methods of reducing liability such as disclaimers, which may further dent the professionals work. On the other hand Pierce and Sweeney (2004) highlight the time constraint issues surrounding the profession. Added to the mix is the determination of negligence for a successful case against the auditors (Willekens et al. 1996), but this may only come to light at the end of the audit process as highlighted by Hall and Renner (1991).

As a result of the uncertainty or the failure to address the issue of how best to address the liability regime, Deng et al (2012) notes that a skewed view of auditors has arisen. Auditors are now deemed to have deep pockets and therefore can be pursued in eventual corporate failure (Deng et al. 2012).

2.7 Conceptual Framework

As a result of the literature that has been reviewed important concepts have been identified. These concepts and standards that underpin the audit process are responsible for the eventual audit opinion being expressed. These concepts are especially important in ensuring that quality audits are conducted professionally to the highest standard. Central to auditing standards is that they exist to verify an outcome enshrining quality and professionalism (Robert Knechel 2013).

In response to these concepts being identified in the literature, the conceptual framework will focus on the four highlighted headings of the person, process, expectation gap and outcome. The main thrust of the framework would be to address the point at which liability can be mitigated/reduced and will be used to assess if potential liability has an impact on how the firm progresses before, during and after the audit.

This process of verification, as identified earlier as the audit process, will be evaluated using the framework. Importantly during the process of gathering data using the Delphi method, it would be essential to gather data that reflects a view, which echoes how the areas identified in the table below contribute to the whole audit process and how liability can be reduced. The crux of the study is to assess what impact liability has had on the firms and if the firms are now facing higher costs for implementing quality standards. Below is a table, which will assist as a guide in examining the whole process and guide in the process of data collection.

The Person	**The Process**	**Expectation Gap/Client**	**The Outcome**
Skills Training Educational requirements Professional requirements Professional conduct	Acceptance procedures Audit planning process Audit execution Standards involved Statutory requirements placed on auditors	Auditor's roles Shareholders expectations Industry Management's role Board of Directors role	Expression of an opinion Future clients selection process Investment in training and resources
Key to the data gathering process is to look at the headings contextually rather than look at them in isolation. The major focus of the data collection process would be to focus the participants on these areas in order to address the liability and quality issue.			
Looking at the person will direct the research in establishing whether the training process instils an awareness of liability or quality?	How does the assessment of the risk profile of the potential client affect planning and execution of the audit? Do costs have a bearing on how the audit process will be conducted and ultimately avoid liability?	Does this have a significant bearing on potential outcomes on the audit opinion? Does the risk profile of the client/industry dictate potential liability?	This is the combination of the person, the process and the expectation gap. How does this impact the firm? At which point does liability arise? How does the audit outcome shape subsequent tender for engagements or acceptance of clients?

3. METHODOLOGY AND RESEARCH DESIGN

3.1 Research Paradigm

When discussing research philosophy, Saunders et al (2009, pp.107–109) point out that philosophy has to deal with the nature and development of knowledge. What they point out is that the development of the knowledge acts as a portal, which demonstrates personal held worldviews.

What Saunders et al (2009, p.107) point out is that the researcher should be able to reflect on the philosophical choices and be in a position to defend those choices where alternatives exist. In essence, what they challenge the researcher to do is to be able stand by their decisions and be able to justify their choices and reasons for taking a certain course of action. To be able to do so, they point out that the worldview the researcher has, plays a role in the whole research process.

One of the authors' strong held beliefs centres on ensuring that, before any judgement is passed, it is important to be able to investigate the reasons and the motivations behind something occurring. This belief is a governing principle that the researcher looks to apply to any given situation or circumstance to avoid a premature judgement being passed. When pooled together, these beliefs that are held are called paradigms. As described by Arghode (2012), a paradigm is a collection of beliefs, governed by certain assumptions, which in turn help to shed more understanding and insight into an occurrence or phenomenon.

In order to gain further understanding on how these paradigms shape the way research is conducted, the method of research is important to consider. Through the process of investigation, insights will be shared, view points, which beforehand would not have existed in the context of the situation, will be aired, shedding greater light on the situation. Hence the best philosophy that describes the researchers research approach is interpretivism. Interpretivism is more concerned with an inductive qualitative approach to research with the aim of exploring the research question (Zikmund 2003, pp.110–111).

At the heart of qualitative research is a need to gain more in-depth understanding of a subject matter being applied by the respondents or participants in a natural setting

(Arghode 2012). This viewpoint fits well with the dissertation research topic as the author is looking to understand the auditor's viewpoint on the matter of liability and the costs of implementing quality standards. Due to certain expectations and responsibilities attached to the auditor, the researcher is looking to understand how they have been able, or are dealing with this issue from their point of view. A major motivator that has emerged from going through the literature is the expectation gap. The held external or public view of auditors is for the auditors to be more careful, vigilant, be better guardians of the gates, scrutinise potential clients more and be better discerners of potentially bad clients.

These may be valid expectations in themselves however the question at hand is how do these expectations affect the auditor not only as a professional but also as a commercial entity. In order to address the questions surrounding the topic, a description offered by Zikmund (2003, p.111) of the processes, note what is involved in qualitative research. It includes diagnosing the situation, evaluating available alternatives, screening them and finally gaining insight through the process. Through reading the literature available on the subject matter and by completing an assignment on the subject matter during the school semester, clearly liability is an issue that needs to be addressed.

Giants of the profession have already explored this subject area, however the researchers' drive and motivation for undertaking this research stems from a held belief that before passing judgement or placing onerous conditions on the audit profession, it is important to take in the auditor viewpoint. Further insight shared by Arghode (2012) points out qualitative research is more concerned with using the viewpoints of the participants to generate knowledge. Weinclaw (2009) further highlights that the inductive process allows the researcher to be able to gain deeper understanding of the subject and also realise hypothesis which can be tested.

Considering these points of view and considering the topic for the dissertation, the main driver of the research is to be able to present the view of the auditor. This is why the positivist approach would not be applicable to the research topic. A positivist approach looks at knowledge generation as being governed by general laws, is observable and is provable (Arghode 2012). With that in mind it would compel the researcher to conduct a laboratory style research process where if a problem exists then it equally means that a solution is available for the problem (Arghode 2012).

To further echo the point on a positivist approach, Weinclaw (2009) notes that methods of research associated with the quantitative paradigm are laboratory and field experiments and simulations. This is consistent with a positivist paradigm, which Arghode (2012) describes as a scientific method to research, where control can be exercised over the subject (Wienclaw 2009). Clearly using this approach for the research topic is impossible, as a number of factors have been identified that the author cannot be in control of or alter, such as the role of pre-acceptance procedures or the role of firm leadership.

When all this is put together, the philosophy that best describes the author's research approach would be interpretivism or an interpretivist approach. The focal point of this paradigm centres on the concept of social reality being highly subjective as human actors have an input to this reality (Walsham 1995). This is in major part, due to the author's personal perceptions and how these perceptions can become a person's reality. Summed up, these perceptions have to co-exist in an environment with other held perceptions and this creates an interesting dynamic as perceptions will differ from individual to individual. Arghode (2012) furthers this by noting that the researcher is more concerned with the perceived meaning that is generated as a result of the research process.

Applying this to the authors' research topic, the author believes that due to this approach and the end goal of gaining an insight into the subject area, an interpretivist paradigm will afford the author the opportunity to collect qualitative data, which will be aided by quantitative inputs to achieve a richer understanding of the auditor's viewpoint. In order to conduct research that will yield depth and insight, various data collection techniques and philosophical questions will need to be addressed, as these will highlight the main assumptions that underpin the interpretivist approach and how data is gathered.

3.2 Methods of Data Collection

To coincide with the research philosophy discussion, consideration has to be made for the ways in which primary data can be collected to assist in exploring the chosen researchable topic. There are various data collection methods at the disposal of the researcher in obtaining primary data that will be consequently used in obtaining a deeper understanding of the subject. These methods under this section will be looked into simultaneously, discussing the pros and the cons and whether the method would be suitable for the research topic selected. Saunders et al (2009, p.141) notes that even though some research techniques may be best suited for deductive or inductive approaches, ultimately it is the research question which shapes the methods employed to gather the data.

3.2.1 Experiment

This method is mainly associated with natural sciences where the main focus is to establish links (Saunders et al. 2009, p.142). The major characteristic of an experiment is the presence of a control group and an experimental group. This means this type of data collection is more suited to a deductive method where a hypothesis or theory is being tested. Wienclaw (2009) notes that this strategy allows scientists to use logic and reason as a means of predicting behaviour.

Considering the research topic and the question that it poses, using an experiment applied to a qualitative research question would mean overcoming certain obstacles such as having a controlled environment, having a hypothesis to test and being able to manipulate the environment. Other related obstacles include the need to have a control group and the experiment group meaning participants in the study giving up their time to ensure they are in a controlled environment. This is a major stumbling point as the participants required to take part in this research are current practitioners and have no time to spare.

The main focus of the research question is to establish a deeper understanding of the issue of liability and audit quality not looking to predict any behaviour by an auditor. The experiment method has its merits in a scientific research approach however considering the research question it would not be an appropriate data collection tool for the qualitative research question.

3.2.2 Questionnaires

Saunders et al (2009, p.362) highlights that questionnaires are used in explanatory research enabling the researcher to examine and explore relationships and the variables closely linked to the relationships. An important characteristic of a questionnaire is to ensure that it is worded correctly to ensure more accuracy and relevance to the subject matter (Zikmund 2003, pp.329–330). Zikmund (2003, pp.331–343) identifies some of the do’s and don’ts when designing questionnaires. These include appropriate phraseology used in the questionnaire, if open ended or close ended questions are appropriate for the study, using simple and conversational language, avoiding complexity, being specific, avoiding ambiguity or assumptions and avoiding questions that may be taxing on the individual.

Considering the research topic that looks to evaluate the auditor’s point of view, a questionnaire designed to be open ended and with logical flow surrounding the issues identified would be the best way forward. It would afford the author a deeper understanding of the subject matter. The data gathered can be objectively analysed and once quantified comparisons can be made versus prior research or literature available. An added benefit of using a questionnaire is its practicality and the low cost associated with obtaining the required data. However some of the pitfalls of a questionnaire include inability to deduce respondent’s truthfulness in answering questions or the effort put in by the respondent in answering the questions.

3.2.3 Observations

The use of observations is consistent with a more qualitative research approach. Saunders et al (2009, p.288) defines observations as a systematic approach which looks to record the behaviours of people potentially adding to the richness of the data collected. Zikmund (2003, p.235) in discussing observations notes, there is a systematic approach to the data gathering process and is subject to checks and controls. What is further noted is that the data collection technique is more associated with a scientific approach.

Zikmund (2003, pp.238–254) notes there are different methods of observation. Mechanical observation is identified as a method that involves the use of machines in monitoring human behaviour. Direct observation is identified and it describes the researcher recording what occurs in real-time. Both these methods have merits and are a great source of obtaining rich data as the methods record actual events in their natural environment whilst the researcher is present. Zikmund (2003, p245) notes further that in using this method people, behaviours, social settings and purpose are central to the data collection process as they are all interrelated. Zikmund (2003, p239) identifies that inherent with this data collection technique is the subjectivity, bias documenting every fine detail of the situation and basic accuracy faults involved. These may cause the researcher to obtain primary data that is not reflective of the natural situation but led by their own bias, recording failures or lack of objectivity.

Considering the research topic this form of data collection would be ideal for the research as it would mean a greater insight into the workings of the audit profession and how it applies policies, procedures, training and standards to mention a few used to reduce potential liability. However this is not feasible due to time constraints, access and confidentiality agreements that will exist between the client and audit firm and the inability to observe multiple processes occurring simultaneously such as training, pre-acceptance procedures and design and implementation of the audit plan.

3.2.4 Interviews

When looking at interviews Saunders et al (2009, pp.320–321) note that interviews are a great source of primary data. One of the types of interview techniques they discuss is a structured interview.

In a structured interview the questions are already predetermined and the interviewer administers the questions to the participants (Saunders et al. 2009, p.320). What they go on to note is the need to stay focused and read the questions in order to avoid potential to be biased. The main difference between structured and semi structured interviews is that the interviewer will have themes rather than a set of pre-prepared questions. This means that questions may be omitted or varied to flow with the conversation between the interviewer and interviewee (Saunders et al. 2009, p.320). Contrasted against semi structured and structured interviews, unstructured interviews are mainly informal, where the interviewee is given free reign to discuss matters put to them allowing them to explore the questions based on their perceptions (Saunders et al. 2009, p.321).

Once the style of the interview had been determined, it becomes important that the researcher chooses the appropriate questioning technique (Saunders et al. 2009, pp.337–339). Closed questions are used to extract specific information however the major drawback is the possibility of unintentionally leading the interviewee on using the questions. Using probing questions allows the researcher to explore reasons behind responses or simply requesting further clarification on an issue. Open ended questions therefore will offer the participant the opportunity to discuss in greater detail an issue or question posed and allows the interviewee to respond as they see fit (Saunders et al. 2009, p.337).

An added dimension to the interview as discussed by Onwuegbuzie et al (2010) is that non-verbal communication is an important part of the interview process. They cite that one of the reasons for the importance of non-verbal communication is that there is an opportunity to obtain a deeper and richer understanding of the subject matter through clarification of words or meanings of questions.

Considering the time constraints and the research topic, conducting an interview with an auditor will afford the researcher an opportunity to discuss in much greater detail the questions posed on the questionnaire. The interview will be semi-structured allowing the interviewee to respond with great depth and detail.

3.3 Philosophical questions

Once the data collection techniques have been finalised it becomes important to consider the philosophical questions that will shape the research process. The ontological, epistemological and axiological questions are considered in this section.

3.3.1 *Ontological question*

Arghode (2012) presents ontology as things that constitute the world that will assist in understanding reality. To better understand the question, Saunders et al (2009, p.110) notes that the ontological question is concerned with the nature of reality and looks to raise questions about the preconceptions or assumptions that the researcher holds regarding the world and how it operates.

Saunders et al (2009, p.110) further notes that the ontological question is influenced by both objectivism, which looks at social entities and how they relate to the social actors, and subjectivism and how perceptions and consequent actions create social phenomena by the social actors. Subjectivism looks to gain an understanding of any significance attached to a social occurrence by the individual.

3.3.2 *Epistemological question*

Saunders et al (2009, p.112) note that this question delves into what constitutes acceptable or valid knowledge. To add to this further, Arghode (2012) presents that an interpretivist approach, when considering the epistemological question, in essence is dealing with multiple truths. Arghode (2012) further postulates that in conducting the research from an interpretivist point of view, the researcher will be looking for multiple answers to the subject matter.

Taking this into consideration and delving into the literature, multiple areas that warrant a closer look have come to light. The areas summarised in the conceptual framework include the person, the process, the expectation gap and the outcome all point to multiple possible answers. Considering the commentaries and ideas presented to deal with the issue of liability, the general overview is that a combination of efforts may be needed in dealing with the issue of liability. No one solution has been cited or agreed upon by the authors and researchers in the past, hence the researchers motivation to gain understanding from the practitioners who are involved in the audit profession on a day-to-day basis, as to why this may be the case.

3.3.3 *Axiological question*

This question shines a greater spotlight on the researcher asking the question of the role of values in making the decisions and choices in the research topic and process (Saunders et al 2009, p.116). To further give definition to value, Bock (1973) defines value as that which is esteemed by humans and has an intrinsic value which governs their actions or enjoyment. To shed an even brighter spotlight on the subject of values, Saunders et al (2009, p.116) narrows down values in the context of social enquiry.

To add to this, Heron (1996, p.126) presents the idea that human beings are guided by their values. The main driving force of this question centres on choice. As discussed by Saunders et al (2009, p.116), the researcher made a choice of one topic over another due to the values held. What is clear about an interpretivist view under the axiological question is that even though the researcher may not verbalise or make their values known, by virtue of selecting the topic, the intrinsic identity of the topic speaks volumes about their own values. This is true of the values the author holds of giving a fair opportunity for the other side to air their views in relation to the issues that have been identified.

3.4 Research Design

3.4.1 Strategy

Considering that an interpretivist approach will be taken, a qualitative research approach using a Delphi research method to gather data is the best fit for the interpretivist view. It will include an element of quantitative analysis in order to assess the qualitative primary data gathered. It will afford the researcher the opportunity to access the views of the experts and be able to establish potential reasons or justifications behind differing opinions or viewpoints.

The researcher will use the Delphi survey technique, which will involve the use of a questionnaire that will be sent to the participants. It will afford the researcher the opportunity to access experts from different geographic locations. The thrust of the Delphi technique centres on evaluating if a consensus crystalizes over certain areas of the posed questions when the responses of experienced professionals are analysed, and seeks to understand why a divergence may occur (Nworie 2011). The reason for choosing this method is because of the gaps in how to deal with liability in the audit profession and observing whether the profession has insight on how best to move forward. A consensus reached could pave the way for legislators to take a closer look at motivations behind auditors reaching a consensus in certain areas.

This Delphi technique works in tandem with the interpretivist view, as it will assist the researcher in delivering an interpretive understanding of the chosen subject area. As a consequence the process will be inductive as no theories or hypothesis will be put forward at the start of the process but through the analysis of data at the end of the process, a better understanding will be had.

A characteristic of the Delphi research method is to have multiple rounds of questionnaires sent out to the participants. The data obtained from a round 1 questionnaire is collated and used to design a second well-structured questionnaire. The Round 2 questionnaire will then be given to the experts to reconsider their earlier contributions (Nworie 2011), when shown their responses in the context of others.

This is done in order to establish areas of agreements and disagreements. In so doing, a consensus pattern may be formed leading to a Round 3 questionnaire that explores the reasons behind the expert falling outside the consensus. When the responses are reviewed, Round 4 may be used as the final step for the experts to consider their earlier views and opinions on the subject matter.

Considering the time constraints and access to professionals, only one round will be used with the aim of including questions that will encompass the areas identified in the conceptual framework.

The access to diverse levels of management in firms would afford the researcher better insight to the subject area. Most importantly the selected professionals will be selected from the audit profession (Nworie 2011). A much clear definition of the selection criteria will be used in selecting the professionals to ensure the continued objectivity of the study (Shelton 2010).

3.4.2 Selection criteria

- Current practising auditors
- Level of management: Audit Seniors or above
- 2+ years auditing experience
- Available to participate
- From different firms to gain diverse views.

The choices made in the selection criteria are aimed at attaining a realistic understanding of the operational environment and the challenges currently faced. This will afford the researcher the depth needed to ascertain the differing views that exist, if any, between firms. Practical experience is a cornerstone in the whole data collection process because the practitioners are constantly revolving around the issues identified and need to apply auditing, legal and ethical standards and procedures to avoid potential liability.

The researcher has opted to put availability as a selection criterion because of the time constraints and the need to be able to analyse the responses in a timely manner. The level of management criterion has more to do with the fact that audit seniors and above have greater exposure to the audit process and are better placed to draw from a deeper knowledge and experience base.

3.5 Methods of data collection

3.5.1 Primary data

Questionnaire

Upon going through the literature and weighing up the views presented by the authors, the major sticking point centres on the liability regime, the professional auditor and conduct. These viewpoints presented have valid weighting and would need to be discussed in depth. Thus the main and only primary data collection tool employed will be a questionnaire.

The questionnaire will be designed to have a section at the end where participants will be able to express any other opinion on the subject matter. The questions posed to the participants will be centred on the issues identified in the literature review such as the liability regime, training practices, role of leadership within the firm and the professional auditor (Nworie 2011) and will be reflective of the conceptual framework. Keeping the question bank short and concise will afford the respondent the opportunity to focus their answer and concentrate on the subject matter.

Considering the time constraints and the need for detailed analysis, only 1 round of questionnaires will be sent to the participants. The questionnaire will aim to encompass the key focus areas of the topic identified by the conceptual framework and ensure that they are addressed. The questionnaire will be designed to be open ended, to permit the participant to ponder with great depth and insight, their motivations for answering in the manner they have done, based on their prior and existing knowledge, experience and exposure to the audit process.

The researchers' main motivation for using the questionnaire is to be able to assess what are current practising auditor views of the liability regime and other relevant connected areas. The questionnaire will be sent to seniors, audit managers or any practitioner who may be senior to the above mentioned. The focus of evaluating if crystallisation occurs over certain areas or divergence occurs will still be used as a basis of evaluating the responses of the participants.

As the Delphi method is time consuming and requires multiple rounds, the researcher aims to keep the expert group small in order to afford the researcher time to better process and analyse the responses given. Due to the time constraints, only 1 round of questionnaire will be sent to the participants. This is taking into consideration not only the time factor but also the participants who have kindly agreed to take part by sparring some of their working time to be a part of the primary data collection phase.

Broken down the questionnaire could be summed up into 2 main categories;

Impact of liability

In evaluating the overall impact of liability, respondents would be asked to assess how the risk appetite of the firm contributes to the overall exposure to liability. This is central in understanding the motivations for accepting or not accepting potential clients. It will focus on how the commercial decisions of a firm have an overall effect on the firm and its plight in reducing potential liability.

Another question area that is closely linked to the issue of liability is whether a correlation between costs vs. benefit on one hand vs. risk profile vs. client acceptance on the other. The questionnaire will look to address this area, posing questions to the respondents to evaluate the impact costs may have on the overall audit process from pre-acceptance to the outcome of the audit. Considering a part of the conceptual framework the questionnaire will pose questions looking to evaluate whether the respondents believe liability arises during or after the audit process has been completed.

Quality Standards

The area of quality has been covered in the literature review and one of the standout points derived from going through existing literature is the need for quality to be enshrined throughout the firm and in the audit process. Posing questions requiring the respondent to evaluate whether the person is the main focal point for implementing quality standards or enshrining quality throughout the process or the role that is played by the expectation gap on the overall process will be an aim for the researcher.

The list of questions will attempt to evaluate the subject matter using the knowledge of the participants who are current audit practitioners. The questions have been derived using the conceptual framework, which has acted as a guide in the design of the questionnaire, which in turn has been heavily influenced by the literature review and the findings. The thought process behind these questions is to probe the main four sub headings in the conceptual framework, which consists of the person, the process, the expectation gap/ client and the outcome.

3.5.2 Secondary Data

To assist in the process of conducting the research, journal articles, newspaper articles and other peer-reviewed publications will be used. These will assist in broadening my research and thought scope, ensuring that the appropriate channels for understanding the topical issue and sub headings of the conceptual framework are explored.

The articles and other publications will be accessible on the web. In particular newspaper publications will be accessed from the newspaper websites, with cases being cited being accessed from the High Court of Ireland search database.

3.6 Sources of data

As the Delphi research method will be used, a panel of experts will be approached in order for them to share their insight on the matter. The selection criteria, as has already been detailed, will request current audit practitioners from different firms and levels of management within those firms. The researchers' aim is to involve a diverse range of participants so as to gain a broad and extensive view of the subject matter and also to generate differing insights and depth.

Importantly the experts will not be selected to form a population demographic representation. The experts will be presented with a number of questions upon which a consensus to be reached is the main aim.

Their expert view on the issue surrounding the liability of auditors and its impact will be the source of data. Involving audit seniors will also be crucial in establishing whether the concept of liability is understood from the moment auditors begin their training. The hope is that they share their recent gained experience and whether or not the recent training received has had an impact on their professional outlook. This will also prove to be a valuable source of data through analysing their responses to the issues posed.

3.7 Access and research ethics issues

At the very start of the data gathering process, the researcher will make it expressly clear that all information provided will be held in confidence and would not be used for any other purpose except for the purpose of the research. If required the researcher is willing to sign any confidentiality agreements or clauses to ensure that the resolve is maintained.

Any correspondence emails will be held in strict confidence and will only be discussed with the provider of the information and no third party. At all times the researcher will aim to be professional and respectful adhering to the ethics standards required. The researcher will also aim to ensure that no personal prejudices and opinions towards the subject matter influences respondents therefore aiming at all times to be and remain objective throughout the research process.

3.8 Analysis techniques

As the Delphi method is the choice method for data collection it will be essential to have decision rules that will organise and assemble the judgements and insights passed by the respondents. The major aim with the Delphi method is to evaluate and assess the crystallization of consensus or divergence therefore affording the researcher the opportunity to analyse the number of respondents who fall into the majority and minority and the reasons behind the crystallization or divergence.

Depending on the content of the questionnaires percentages can be used as a way of describing consensus and explaining levels of agreements amongst the experts (Nworie 2011). The scoring scale can be used as an analysis tool to evaluate findings, which will then be used to prepare further questionnaires in Rounds 2-4 of the research. However as discussed and mentioned, only 1 questionnaire will be used with no subsequent further rounds. The challenge then raised is to ensure that the questionnaire encompasses the main focal points.

Therefore as indicated earlier, the study will be inductive, it consequently means the responses provided by the participants will be central in the whole analysis process as no hypothesis is being explored but greater insight and understanding is sought.

4. PRESENTATIONS AND DISCUSSION OF THE FINDINGS

4.1 Overview

The purpose of this section is to discuss the responses from the participants, who took time to complete a questionnaire and an interview. The findings will be analysed under two major sub-headings, consensus or disagreement amongst respondents and convergence and divergence from literature.

A profile of the respondents is given in Table 1 below with analysis of the findings and responses included in the Appendix under *Appendix B.*

Table 1: Profile of respondents: Position, years of experience and employee numbers

Position	Years of experience	Number of employees in the firm	Respondent number
Principal	33	5	**R1**
Principal	14	5	**R2**
Managing Director	22	16	**R3**
Assistant Manager	4.5	250 approx.	**R4**
Audit Senior	2	1500 + approx.	**R5**

4.2 Findings

4.2.1 Consensus

Question 6: Does the risk profile of the client play a role in the overall acceptance of the client?

The respondents who participated in the study all agreed that overall risk profile of the client was a factor in the acceptance of the client, with a yes agreement rate of 100%. The main focus of the question was to address the risk versus benefit, to assess if the auditors were willing to take on a client regardless of the potential challenges foreseen. R2 remarked

‘…*if the client is high risk we would not accept the appointment’*.

Echoing this viewpoint further respondent R3 remarked

‘…higher risk profiles prohibit small firms from taking on the engagement, PI (Professional Insurance) *becomes expensive…’*

The issue of the risk profile is one that the auditors take into consideration before accepting a client.

Question 7: Are pre-acceptance procedures an integral part of the audit process?

This question looks to address the economic factors that need to be considered. On the whole an auditing firm is a commercial enterprise, which needs to make commercial decisions therefore would need to make an economic decision based on its own assessment of the client.

Again 100% agreement rate realised in this question with all respondents saying yes and then further providing explanations for their response. R1 remarked

‘…*It was tantamount to assessing what risk is attached to the new client’* with R3 remarking

‘*...Such procedures become a standard for acceptance’*.

Question 8: Do you think costs associated with implementing quality standards are a concern? Why?

Like in any other commercial enterprise, costs associated with implementing quality standards are important to auditors as revealed by the 100% agreement rate when the question was posed. From a larger auditing firm’s perspective, R4’s response was one that echoed the main reason for concern by stating that

‘*...the firm has a budget and targets to meet’*.

While addressing the same question R4 remarks that

‘…*the audit file must be of a high standard in order to draw conclusions. In order to achieve a high standard file, the audit team need to be allocated enough time, resources and the necessary experience to draw conclusions…’*

R1, from a smaller firm remarked

'*…it is impossible to make a profit on an audit'*.

Question 10: Do you think the training you have received has increased your awareness of liability and the need to have and follow quality standards?

In response to this question, 100% of the respondents said yes with R4 remarking

'*Yes we have received training on the awareness of liability and not only ISA standards but also our firm standards'*.

Further echoing this point when the question was levelled to R5 in an interview, the response was

'*…but behind those numbers are actual real people, real investors, real directors, real con artists and real and genuine people that need an auditor that will give their all to find out what is happening behind the scenes so I think my awareness of liability has increased…'*

In response to this question R3 highlighted

'*…monitoring by professional bodies ensures high standards of performance.'*

Question 13: Do you think the current legal framework for auditors is sufficient in addressing the liability issue?

The response to this question was emphatic with all respondents answering yes thereby realising a 100% agreement. The respondents gave no further explanation. On appearance it may be deemed that the legal framework does address the issue of liability sufficiently.

The respondents provided no further information when this question was posed. This could signal the inherent limitations of using a questionnaire where there is no opportunity to clarify the question or the question was not appropriately phrased to address the particular theme or area being investigated.

Question 14: Do you think there are sufficient safeguards to avoid liability arising?

A 100% yes agreement rate was realised when the respondents answered this question. R1 in answering the question cited communication as being important and communicating appropriately with the clients.

In response to this question R4 noted that the safeguards would be sufficient if they were appropriately followed remarking

'*…maintaining such safeguards throughout the audit and throughout the lifetime of the practice is what avoids liability'.*

4.2.2 Divergence: differences in viewpoints

8 of 14 of the questions posed realised a divergence in viewpoints. The questions posed covered the expectation gap, the audit process, costs associated with quality implementation and accountability of auditors.

Question 1: The expectation gap could be defined as the difference between what the public and financial statement users believe the auditors are responsible for and what the auditor's actual responsibilities are per laws and regulations. Do you think the expectation gap plays a role in how the audit is executed?

The focal point of this question centres on what the auditor thinks the expectation gap is versus the public perception.

In addressing this question 80% of the respondents replied no with 20% responding yes. In response to the question R1 remarks

'*No an audit is carried out in accordance with best practice…'*

Responding to the same question R5 highlights that

'*…I don't think so necessarily…'*

Question 2: Do you believe the expectation gap can be reduced and how?

The main reasoning behind this question is to evaluate the relationship between the person, the process and the eventual outcome.

Whilst addressing this question, 60% of the respondents replied no to the question with R3 citing

‘*Auditing of financial statements is prescribed…’*

Further to this when the question was put to R5 in an interview setting, R5’s response to it was

‘So I think to reduce the gap it would almost suggest that the auditors have to take a superior role in the auditing and become some authority and yet our role is to support the financial statements user to understand the financial statements. I think that the gap can be difficult to close from that view’.

Question 3: Do you believe the audit process has flaws or problems inherent in it?

The main reasoning behind this question was looking to evaluate where potential liability could arise in the audit process. In response 80% of the respondents responded yes with 20% saying no.

R1 cited

‘Yes it is reporting on historical out of date information in the current world…’

Responding to the same question R4 highlights that

‘...the objective of an audit to provide only reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is not absolute, because there are inherent limitations of an audit…’

Question 4: Providing simultaneous audit and non-audit engagements to clients may cause dysfunctional behaviour such as a lack of objectivity. From your experience is this the case?

The thinking behind this question was to examine if the auditor is aware of his or her own work practice, which in turn impacts the potential outcome. 80% of the respondents disagreed and replied no with 20% saying yes. Interestingly is the difference that emerges between the smaller firms and the larger firms.

Addressing the question R2 sheds insight by stating

‘No as auditors we have to maintain objectivity. If objectivity is compromised then the auditor should resign.’

R4 from a larger firm responded no to the question citing an interesting reason to her answer. R4 cited

'I work in a medium sized firm which has a number of departments…the risk of objectivity is mitigated as different teams are providing the various services.'

Question 5: Do you think management can influence the potential outcome of the audit?

Using the conceptual framework as a guide the main crux of this question was asked to evaluate the impact of client company management on the audit process and if it had a bearing on the potential outcome of the audit. In response to this question 60% of the respondents said no with the remaining 40% saying yes.

R4 backing up the no response noted that ISA 200 is important in dealing with this issue. R4 noted

'ISA 200 specifically mentions professional scepticism. The auditor shall plan and perform the audit with professional scepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.'

R1 further explaining the reasoning behind the no answer states that

'…it is down to the individual auditor to run the audit properly.'

R3 in responding yes to the question cites that management have a deeper understanding of the business and therefore may be dishonest in disclosing important information thereby having an impact on the overall audit outcome.

Question 9: Are audit and quality implementation costs borne in mind when designing an audit process?

The tension being evaluated in this question exists between the professional auditor and the economic/commercial enterprise business side of the practice. It looks to evaluate if the costs associated with the audit process are a factor. In responding to this question 80% of respondents said yes they were borne in mind with 20% saying no.

R1in addressing the question cites them as being integral as they have to be planned for. R3 in answering yes notes that the costs are considered in a situation where the engagement is

'… cost sensitive.'

R2 is clear on the position regarding costs by noting

'No we have to adhere to CARB standards…'

Question 11: Does an industry sector dictate the potential to liability arising?

When exposed to certain industries whether the firm faces a higher potential for liability compared to other industries, is the main theme being examined in this question. In answering this question 60% said yes with 40% saying no.

R3's position on the question is clear by stating

'…certain industries carry a higher risk than others'.

In response to the question posed in an interview setting R5 articulates that

'…there are more volatile industries than others that's not to say you know, other industries are any less but I think there are certain areas where there is high risk and reward so there is major crime in certain industries…so I think there are different risk profiles and risk levels in different industries definitely.'

However to counter the viewpoint R1 responds to the question by citing a no answer and stating

'…it depends on the risk associated with the specific audit.'

A point that can be highlighted here is that R1 works in a smaller firm and may not have had exposure to many different industries. However R1's 33 years of experience may suggest that they are appropriately equipped to meet the demands of the audit.

Question 12: Should auditors be held accountable and responsible for the collapse of a company?

The thrust of this question is to examine the relationship between the expectation gap, the person, the process and the outcome from the respondent's point of view. 80% of the respondents said no with 20% of the respondent's position unclear.

The 80% were emphatic when answering the question with R5 remarking

'Absolutely not…' however going on to clarify that *'if there were repercussions like serious repercussions to people's careers we would take the process more seriously.'*

R2 gives another insight into the reasons for not holding the auditor responsible by citing

'…an auditor can only give a true and fair opinion on financial statements for a specific period'.

Putting it in simpler terms R1 remarks

'No he/she does not operate the company'.

4.3 Discussion: A comparison of findings vs. literature review

The results derived from the questionnaire and interview shed interesting insights that shed more light on the issue of liability and quality and if the auditors are operating in a heavily litigious environment. The responses shared by the participants on matters that have been discussed in the literature review are often congruent and sometimes divergent.

The issue of liability is one of the central themes of the study. The main motivation as stated in the Research Methodology Chapter 3 is to explore and express the auditor's views on issues identified in the literature review. Using the conceptual framework as a guide the focal point is to evaluate at which point liability arises or may potentially become an issue. Questions 13 and 14 in particular surprised the researcher in the manner in which the respondents were unanimous in their agreement by stating that both the legal framework is sufficient in addressing the liability issue and that safeguards do exist to avoid liability. This response seems to be congruent with what Smith (2012) postulates by noting that regulatory bodies are endeavouring to reduce the exposure to liability for auditors. From this it could be assumed that the regulations in place seem to be addressing the liability issue currently.

The conceptual framework went on to identify the person as an essential part of the whole audit process. Duska (2005) discusses the need to have professional scepticism, Keenan (2008) suggesting that a professional's work should stand the test of time and Cosserat (2004, pp. 66-72) suggesting that the auditor needs to have up to date skills that will meet the requirements of the task at hand. In line with these views, the respondents were again unanimous in agreement. What can be extrapolated from the responses is that the training that auditors are currently or have been in receipt of has been effective in increasing their awareness of liability. This is important as it demonstrates that as a professional, an auditor needs to ensure that their skills and expertise are appropriate to meet the demands and challenge of the work before them. Being unanimous in agreement is an indicator that the training received is an effective method of reducing potential exposure to liability and needs to be an on-going process as cited by a respondent.

Closely tied to the professional auditor is the question of providing multiple services or being engaged in multiple assignments that may potentially impact the auditor's objectivity and ultimately on the overall audit. This view postulated by Tepalagul & Lin (2008) appears to resonate with one of the respondents who noted the difficulty of being objective in reviewing one's performance. However in contrast to this view, 80% of the respondents cited amongst the reasons that, having multiple departments can reduce the potential of losing objectivity and by noting that if objectivity is compromised then the auditor would need to step down and resign from their position. From those responses what is evident is that on one hand it appears plausible that objectivity is lost when a self-review of previous work is conducted and on the other hand if objectivity is lost then the auditor shouldn't conduct further work. This then raises the question of whether the auditor is aware if they have lost their objectivity or if someone within the firm is able to point out the shortcoming. This could be an opportunity for further research.

One of the tasks that an auditor needs to perform is to communicate their findings through the audit report, to the shareholders, by expressing an opinion on the financial statements. McEnroe & Martens (2001) discuss the expectation gap noting that it is the difference between what the public and the financial statement users believe the auditors are responsible for and what the auditors themselves believe their responsibilities are. Considering the findings 80% of the respondents noted that expectation gap wasn't a factor in the execution of the audit and 60% believed that the gap that does exist could not be reduced. These findings highlight a divergence to the efforts of the International Accounting Standards Boards in trying to reduce the gap (Gray et al. 2011). Symptoms of the problems of the expectation gap, communication between the auditor and the shareholder and the perceived role of the auditor all converge at the audit report point.

This then raises the question of the audit report. Is it to be viewed as a comprehensive document that covers the company as a whole? In addressing this issue Quick (2012) notes that the auditor is not required to test all areas of the financial statements. A respondent further echoes this by stating that the audit does not cover the whole company financials. This then has knock on effects to the overall expectation gap paradigm and ultimately on the overall publicly held views of auditors.

Firstly as identified by Quick (2012) there are costs to be borne in mind if a comprehensive audit was to be undertaken. In addressing this question the respondents were not unanimous in agreement, with 80% saying yes and 20% saying no. The 80% yes respondents noted cost sensitivity, budgets and in a nutshell turning a profit on an audit is becoming particularly challenging. That being said the 20% pointed back to the already established standards that need to be followed regardless of the cost. Secondly in relation to the audit process the response to this issue yielded a division in views. A lack of understanding by the public, reporting on historical information and an acknowledgement of flaws in the process are reasons cited for this occurrence. Thirdly there is a need to consider the role of the company management and whether they impact the overall process positively or negatively. Again respondents were divided on this issue with one respondent remarking that a trust but verify scenario needs to perpetually exist as long association with a client may cloud the objectivity of the auditor. However on the other hand 60% of respondents noted that company management shouldn't influence the outcome of an audit citing the need for auditor's to be in control of the process and plan the audit appropriately to ensure that any potential perceived and real threat to independence or influence by company management will be appropriately dealt with by the audit firm.

Considering these points and in tandem with the audit report the spotlight shifts to the auditor conducting the audit. Deng et al (2012) cite that increased punitive measures against auditors for corporate failures act as incentives to motivate the auditor to detect potential misstatements. However 80% of the respondents disagree with being held accountable for potential corporate failures. This implies that auditors are clear on their roles and those roles are clearly demarcated defined as auditors do not act as managers of the company.

Considering the outcomes of the findings and tying them back to smaller firms becomes essential, as this is the main focus of the research question. Central to the research topic is to understand how all of these factors affect smaller firms compared to the larger firms. What is universal when including the larger firms points of view is that the legal framework is sufficient, there are safeguards available to mitigate/avoid liability arising, acceptance procedures are key to the whole process and the costs of implementing quality standards are also a key factor. However when the spotlight is on the smaller firms, both a difference of view coupled with congruent ones emerges.

4.3.1 Smaller Firms: Why do they agree?

In the literature review discussion Fenwick, Huss and Jacobs (1991) discuss the importance of pre-acceptance procedures. This is congruent with what the respondents said. They were all in agreement with the fact that risk, risk assessment procedures and pre-acceptance procedures are an important factor in the overall audit process. The main reason that can be extrapolated from this could be the view that the riskier the client the higher probability there is to liability exposure. Exposure to liability due to risk then becomes a motivating factor for auditors to ensure that their pre-acceptance and risk assessment procedures are robust. Coupled with this the training that is administered to staff is another part of the audit process that aims to increase levels of liability awareness and simultaneously address any threats that could render the auditor liable.

Another area in which respondents from smaller firms agreed was that if applied and executed appropriately there are safeguards that can reduce the exposure to liability. So in a nutshell there are various components, which when used in tandem together, have the potential to reduce potential liability.

4.3.2 Smaller Firms: Why they may disagree?

Ayers and Kaplan (1998) note that due to the need to expand commercially firms now face the risk dilemma of whether to accept or decline a client. This dilemma throws up interesting insights when the focus is solely on smaller firms. The auditing firm as a commercial enterprise looks to raise a profit in the activities it undertakes. Respondents from smaller firms cited cost sensitivity and the failure to make a profit from the audit process as a reason for keeping costs in mind when designing the audit process. However a differing view was aired by one of the respondents who noted that regardless of the cost it is imperative that standards are followed. From this a tension begins to crystalize of whether to make a profit or loss or to follow the standards disregarding the costs involved.

If the costs are not to be borne in mind when designing the audit process, then there could be resources being used ineffectively in trying to provide reasonable assurance through an opinion passed on the financial statements. On the other hand the auditor would need to consider if the audit process could be compromised because of the management costs involved. Sale (1981) notes that due to the increase in commercial bankruptcies, organisations collapsing and entities failing, auditor scrutiny has increased. This is due to the perception that auditors are seen as guardians and mediators for the pubic/shareholders in keeping management in check (Sale 1981).

This becomes a dilemma for the auditor as the public expect the auditors to test all areas of the financial statements regardless of cost. It would be interesting to further analyse this in future research if the cost versus benefit of the audit process is a major discussion point for auditors.

Another area of divergence surrounds the issue of industry sector. The respondents from the smaller firms note that certain industries can be risky. To add to the dynamics, Lim and Tan (2008) postulate that if firms specialise in certain industries then they are capable of building expertise in the field. Through building this expertise, an incentive for the firm arises to ensure the maintenance of their reputation capital. But the question that sets in is, does the firm make a commercial or reputational decision? The risk assessment and pre-acceptance procedures then play a major role in determining the acceptance or not of the client and subsequent entry into that industry. This tension is evident as some of the respondents note that some industries may be more risky than others and yet another respondent puts the focus squarely on the risk associated with the audit engagement itself.

4.4 Conclusion

The fact that certain areas have crystalized showing congruence and some areas showing divergence is not conclusive enough to pin point at which point liability may arise. The legal framework, using the responses of the participants, appears to be addressing the issue of liability appropriately professionally training and pre-acceptance procedures all play a role in reducing the potential exposure to liability.

The expectation gap is one area that continues to stand out amongst the themes identified in the conceptual framework. There is a gap that exists between what the auditors realise their responsibilities and duties are, versus what the public deem they should be doing. What is not clear is whether the gap can be reduced or not. Will more information solve the problem? Should more be required of the auditors? This is unclear as one respondent noted that the information being examined is historical in nature. This means long after the year-end economic conditions could prevail that could adversely impact on the company rendering the audit report ineffective for making an economic decision about the future by the end user.

Another question that fails to render a more concrete conclusion is at which point does the cordial relationship cross the line of interfering with the audit process? If the client company management purposely withhold information that could impact the audit opinion that will be passed. What about the audit process and its inherent flaws? All these questions would need to be addressed to gain a semblance of pin pointing the cause of liability.

What is clear though is the same position arrived at whilst looking at the literature. This is a complex matter with so many facets that no one solution is going to resolve the problem. Due its multi layers, it becomes difficult for legislators, regulators and auditors to pin point the problem of liability and address it with a one size fits all solution. This however does not give the professionals, legislators and regulators room to abdicate responsibility but it gives more impetus for the stakeholders involved to work together in addressing the problem on a step-by-step basis. It may take months or years to deal with the issue, however continual dialogue is needed that will reflect the prevailing economic environment. In the findings auditors have been clear on certain issues and divergent on some and a good starting point in addressing the issue would be to solidify the strengths and begin to probe the weaknesses that may potentially impact the audit profession as a whole. As stated by Svanström (2013) regulators are keen for auditor's to maintain their independence at the same time enshrining quality in what they do.

A precarious balance then exists that may have the consequential effect of bringing down yet another firm due to the deep pockets view held by the public as discussed by Deng et al (2012). How this balance is addressed can tip the scales in favour of or against the auditing profession. How legislators approach it and regulators watch over it should contribute to how the issue is resolved.

5. CONCLUDING THOUGHTS ON THE CONTRIBUTION OF THIS RESEARCH, ITS LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 IMPLICATIONS OF FINDINGS FOR THE RESEARCH QUESTION

Initially the dissertation process began with identifying a researchable topic that would equip the researcher with the skill and proficiency to conduct a research process from the beginning to the end. To aid this process, the researcher identified auditor liability as an area of interest and set about exploring it. Through providing a background of how the negative consequences international events such as the collapse of Enron in 2001 in the United States of America, the researcher noted how such events could have affected the audit profession over time on a worldwide basis and in particular Ireland. To investigate the area of audit liability in Ireland further aims and objectives were set out that would guide and shape the research process.

To begin the research, important literature already produced over time by both professional and academic giants was identified. The literature was identified through reading material applicable to the research question in areas concerning the audit process, the expectation gap, auditor's responsibilities and the role and importance of quality in auditing. By doing so, the researcher was able to focus the research process by identifying, through the use of a conceptual framework, the areas in the audit process where potential liability could arise. This proved invaluable as the combination of both the aims and objectives and the conceptual framework guided the researcher in exploring the topic.

Once the appropriate themes were identified in the conceptual framework that included the audit process, the audit professional, the expectation gap, the industry of the client company and the outcome of the audit process, the researcher then proceeded to identify an appropriate research methodology. The best paradigm upon comparing it with other available paradigms was an interpretivist approach as a deeper understanding was an aim with no hypothesis being tested. Once identified the researcher took the next step of considering appropriate methods consistent with an interpretivist approach of data collection used in business research. Questionnaires and interviews were identified as suitable methods to meet the aims of the research topic and process. Included in the discussion was the Delphi technique used in business research and how the use of multiple rounds of questionnaires was used in evaluating areas where congruence or divergence may occur. Due to the time constraints the researcher eventually decided to use one round of the questionnaire rather than multiple rounds. To underpin the whole discussion on the research strategy taken by the researcher a discussion on philosophical questions, analysis of data, selection criteria of participants and secondary data was included to ensure that the reader of the dissertation was made aware of the motivations and reasons for the decisions made throughout the research process

The researcher began collecting primary data an important step in the research process through a combination of an interview with one of the participants and questionnaires sent to the other 7 participants. Of the 7 participants only 4 responded meaning only 5 of 8 responses were used and analysed. Areas of convergence and divergence emerged from the analysis. The congruency was realised around areas such as training, pre-acceptance procedures, planning and risk assessment procedures. The divergence arose around the expectation gap, client company management's role and costs associated with implementing quality standards. What the researcher noted was that some of the responses from the participants were one-word answers that gave no further insight into the topic. The researcher identified a number of potential reasons for this occurrence such as poorly phrased questions, a lengthy questionnaire and time, which have all been identified as limitations identified in the research process.

Considering the process undertaken by the researcher greater insight has been obtained on the plight of small to medium tier audit firms though from a small sample group. The findings are at times congruent and divergent with the themes identified through reading the literature available on the subject area. An implication of the findings for the research question is that it sheds more light on the complexity of the whole auditor liability issue.

A one-stop solution to the issue is not possible as there are multiple factors at play such as the public, the legislators/regulators and the auditors themselves. All these are intertwined and tipping the balance in favour of one over the other may have the consequence of widening and deepening the cracks on the issue even more. Further to this the findings have unearthed that the size of a firm can make a difference in reducing the exposure to liability and enshrining quality throughout the whole audit process. This insight reveals the growing divide between the larger and smaller firms and the access to resources. Without the depth of resources currently existing in larger firms smaller firms are unable to compete for larger public listed and large private company audits.

Another implication that the findings have on the research question is how to deal with the expectation gap. What the expectation gap has revealed is that this factor, unless dealt with, will continue to perpetuate skewed views held by the stakeholders of auditors.

Further to this are the issues of further research that have been a by- product of the research process. These have been discussed under the Recommendations for Future Research sub-heading.

5.2 LIMITATIONS OF THE RESEARCH

Limitations

Time

One of the intentions of the researcher when beginning the process was to use the Delphi technique in order to evaluate the research question. Due to the time constraint of conducting the full research process over a period of 16 weeks, it proved challenging from the onset to use multiple rounds of questionnaires due to insufficient time and availability of participants. This limitation had the knock on effect of compressing the questionnaire into one round and it meant aiming to cover all the themes identified in the conceptual framework. The result was there was no time for further clarification and analysis of themes identified and therefore the contribution limited.

Participants

Another limitation that the researcher encountered during the course of the dissertation process was the availability of participants to complete the survey. A number of participants were contacted and requested to take part however due to work commitments it proved challenging to involve them as their time was directed towards their work duties. Those who did participate shared insights into the areas identified in the conceptual framework. Some responses lacked depth or were answered in a 'yes' or 'no' manner without shedding more insight on the matter.

Questionnaire phrasing

One limitation noted in gathering the primary data was that some respondents answered yes or no without giving more in depth answers. This proved the phrasing used for the questions posed most likely lead the respondent to answer in the manner they did. Upon reflection, some questions seemed close ended inadvertently constraining the respondent to answer yes or no. The limitation means that in depth answers were not provided due to the phrasing of the questions.

Length of questionnaire: Number of questions

A noticeable trend was the way in which the size or discussion depth of an answer tapered of towards the end of the questionnaire. This could signal that, though a discursive questionnaire, it could have proved tedious to answer and give deeper insight into each question posed considering the effort involved in answering the questions. From question 10 to the end, which looked at the audit professional and the training they have received to date, the industry and the legal framework, responses were becoming one worded or single lined and at question 14 it was more of one word answers. This is a limitation because deeper understanding was not obtained.

5.3 RECOMMENDATIONS FOR PRACTICE

Considering the outcomes and the findings realised as a result of the research process, the researcher proposes the following recommendations regarding the issue of liability and impact it has on smaller to medium tier audit firms.

1. A greater discussion needs to be had on the expectations placed on auditors by stakeholders in order to increase the stakeholders' awareness of the role of the auditor. These discussions could centre on how stakeholders are part of an important connected process that includes them and the auditors and are in no way disconnected from it.

2. Another recommendation would be for greater realisation by the legislators/regulators that the audit process is only part of a process, not a complete process in itself, to give some level of assurance that the shareholders

and stakeholders are looking for regarding financial statements. Putting the onus on the auditors solely as guardians of the gate through passing an opinion on the company financial statements should be countered with holding the client company management more accountable and shining the spotlight on them as the main guardians of the company's gate.

3. The researcher would further recommend that the training regimes in place in auditing firms continue to play a prominent role in mitigating the exposure to liability. Realisation of standards, guidance, threats to independence and policies and procedures can continue to play a significant role in raising awareness among staff of the need to ensure and enshrine quality throughout the whole process. This means whoever is employed by the firms from the first day to their last, they are being encouraged and supported to adhere to these policies and procedures.

4. Another recommendation that the researcher proposes centres on pre-acceptance procedures. The researcher proposes that the pre-acceptance procedures shouldn't be treated as a tick box exercise but form an important and integral foundation to the overall audit process with due diligence being a cornerstone. This is not to say that auditing firms do not do this, however the focus would be to emphasise the importance and need to have their pre-acceptance procedures reinforced and revisited to ensure that they are applicable to the context and time in which they operate.

4.1 Coupled with pre-acceptance procedures the researcher would recommend that at the core of the auditing firms structure is to make risk assessment a major priority in the whole audit process. This could form a valuable safeguard for the auditing firm as assessing the risk attached with a client could equip the auditing firm with the appropriate information during the decision making process of accepting potential audit engagements. The information about the client and the potential risks attached to them could prove the difference.

4.1.2 A further recommendation proposed by the researcher is to enshrine quality throughout the whole audit process and ensure that the audit is conducted in a manner that is consistent with international standards of auditing and other legal guidelines enshrined in Irish company law. This is not to suggest at any point that auditors are being negligent in their duties. Building on this positive aspect of the audit process could have the potential of continually reducing the exposure to liability in cases where negligence is cited as a cause to pursue the auditor.

5.4 RECOMMENDATIONS FOR FUTURE RESEARCH

Cost versus benefit analysis

One major insight gained whilst looking at the research topic was the question of whether a cost versus benefit analysis was undertaken in the whole process. The researcher would recommend that more research is done on whether this is a factor in deciding on taking on new or retaining clients.

Economic decision-making

The researcher has been looking at the issue of liability purely from an auditing perspective without fully considering the business side of the firm. Research could be carried out on the business/operational side of the firm to evaluate if there are indirect pressures that may potentially have a bearing on the success of the firm. The decision making process could be investigated to ascertain if similar decision paths are taken by auditors when faced with accepting or retaining a client.

Expectation Gap

What has stood out from this research process is the skewed view that stakeholders have of the auditor. This gap appears to be widening rather than being decreased. This is a concern for the audit profession, if the auditors have been deemed negligent in auditing the financial statements, however if not found guilty of being negligent could prove costly and time consuming for the auditor further depleting their resources available to them. Research into the potential reasons behind the motivations of holding the auditor responsible, views held on auditors and how best to improve information to the stakeholders could be investigated.

Loss in Objectivity

When discussing the findings a point was noted that looked at objectivity and when the auditor losses their objectivity. An area of further research that could be looked into is the area of loss in objectivity. The question of whether the auditor is aware if they have lost their objectivity or if policies and procedures within the firm are able to point out a loss in objectivity could be investigated to ascertain at which point the realisation of loss of objectivity occurs.

5.5 FINAL CONCLUSION

The road to achieving a balanced view of auditors and the auditing profession will take time to negotiate. What is evident is that there is movement in addressing the issue of liability through including the various stakeholders at large in the whole process. There is an impact on small to medium tier audit firms surrounding the liability issue; there is need for them to continue enshrining quality in their processes and be more vigilant when taking up new clients. However the onus should be laid on squarely on the company management to be the ones responsible for the company financial statements.

Through conducting the research process, the researcher has been able to acquire skills and abilities on how to conduct research. Greater insight into the whole research process, the ability to critically think and objectively analyse information, to evaluate both pros and cons of a subject matter and be able to plan and execute a research process will prove invaluable to the researcher in the future. Understanding the major pitfalls of research such as phrasing of questions, time constraints and length of questionnaires are all by products of going through the research process. Further to this the research process has prompted the researcher to explore further higher learning opportunities to build on this base and continue to improve on critical thinking abilities.

What this research process has done for the researcher is it has revealed the need for the auditing profession, legislators and stakeholders to continually engage in a process that looks to enhance the profession and not stifle it. This process has revealed that the core foundations of the auditing profession still play a significant role in the continual evolution of the profession. Enshrining quality, following standards and procedures and training the person are all important to the overall picture. By focusing on the positives of the audit profession and building on them, all stakeholders involved may just be able to overcome the necessary obstacles in achieving a greater understanding of the audit profession and its role in society. Small to medium tier firms have a role to play and that role is ensuring that on a day-to-day basis through guidance in the legal framework and applying the International Standards of Auditing, quality is enshrined throughout all their processes in order to mitigate the exposure to liability.

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Appendices

Appendix A – ***Questionnaire 1***

Questionnaire

Research Background

In recent times there has been a rise in the lawsuits or court actions against auditors. When companies implode or become defunct, investors will target the auditors as party to the collapse of the company. This study aims to evaluate the overall impact of the expectation gap, probable causes of liability and the impact liability has on quality of audits. In a summarised nutshell the overall study objective would be to evaluate the auditor's viewpoint on liability and quality issues.

Thank you for agreeing to participate in this research process by completing this questionnaire. Your contributions, time and effort are greatly appreciated. The questionnaire answers will be held in the strictest of confidence and all communication and information will only be shared with you. Also, use of the information obtained in the questionnaire will be such that your firm or any of the persons sent the questionnaire would not be individually identifiable.

Instructions: Please kindly fill out your answers underneath each question posed in the questionnaire to the best of your knowledge, experience and insight. Once completed please email your answers to me at (email add). Thank you.

Position:

Years of experience:

Number of employees in the firm:

Questions

1. The Expectation gap could be defined as ‘the difference between what the public and financial statement users believe auditors are responsible for and what auditors themselves believe their responsibilities are’.

Do you think the expectation gap plays a role in how the audit is executed? Please explain.

2. Do you believe that the expectation gap can be reduced and how?

3. Do you believe that the audit process has flaws or problems inherent in it? Please explain.

4. Providing simultaneous audit and non-audit engagements to clients may cause dysfunctional behaviour such as a lack of objectivity. From your experience is this the case? Please explain.

5. Do you think company management can influence the potential outcome of the audit? Please explain

6. Does the risk profile of a client play a role in the overall acceptance of the client? Please explain.

7. Are pre-acceptance procedures an integral part of the audit process? Please explain.

8. Do you think costs associated with implementing quality standards are a concern? Why?

9. Are audit and quality implementation costs borne in mind when designing an audit process? Please explain.

10. Do you think the training you have received has increased your awareness of liability and the need to have and follow quality standards? How?

11. Does an industry sector dictate the potential of liability arising?

12. Should auditors be held accountable and responsible for the collapse of a company? Please explain.

13. Do you think the current legal framework for auditors is sufficient in addressing the liability issue?

14. Do you think there are sufficient safeguards to avoid liability arising?

Appendix B – Findings

Table 1: Overview of primary research respondents

Number of surveys sent	8
Number of responses	4
Response rate	50%
Number of interviews requested	1
Conducted interviews	1
Response rate	100%

Table 3: Responses: Y = Yes, N = No, M = Maybe

Question	R1	R2	R3	R4	R5	% Yes	% No	% M
1	N	N	N	Y	N	20	80	-
2	Y	N	N	Y	N	40	60	-
3	Y	N	Y	Y	Y	80	20	-
4	N	N	Y	N	N	20	80	-
5	N	N	Y	N	Y	40	60	-
6	Y	Y	Y	Y	Y	100	-	-
7	Y	Y	Y	Y	Y	100	-	-
8	Y	Y	Y	Y	Y	100	-	-
9	Y	N	Y	Y	Y	80	20	-
10	Y	Y	Y	Y	Y	100	-	-
11	N	Y	Y	N	Y	60	40	-
12	N	N	M	N	N	-	80	20
13	Y	Y	Y	Y	Y	100	-	-
14	Y	Y	Y	Y	Y	100	-	-