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Small Company Compliance with Accounting Standards: The Irish Situation

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SMALL COMPANY COMPLIANCE WITH ACCOUNTING STANDARDS
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SECTION 1: INTRODUCTION AND HISTORICAL BACKGROUND

INTRODUCTION

The issue of accounting for small, owner managed companies should be seen in the context of a general move towards de-regulation for such entities. In Ireland, Seamus Brennan (the then Minister for Enterprise and Employment) set up a Task Force on Small Business in 1993 which made a number of recommendations, including the dropping of the audit requirement for companies with a turnover of less than £100,000. At the date of writing this recommendation has not been incorporated in statute, but a Companies Bill exempting very small companies is expected to be published in May 1996.

The British Government adopted a general policy of moving towards such de-regulation in 1985. In January 1995, following the publication of the Deregulation and Contracting Out Bill of 1994, a Task Force on Deregulation was set up. The Department of Trade and Industry (DTI) issued a consultative document in 1995 on Accounting Simplifications which made proposals to simplify and reduce disclosures required by the Companies Acts.

The research results set out in this report form part of the exploration by the ASB of the possibility of exempting small, less complex companies from elements of the accounting standards. This section introduces the historical background to exemption from accounting standards. Section 2 deals with the issue of 'Universality'. Section 3 describes the methodology applied in the study. Section 4 sets out the results of the study. Section 5 summarises the findings and Section 6 sets out the conclusions of the study with signposts for the development of the ASB's policy on exemption for small companies from accounting standards.

Accounting Exemption - Historical Background

The subject of accounting standards and small companies was considered by the Accounting Standards Committee (ASC) in 1983. A consultative meeting was held between the ASC and representatives of small businesses. The main conclusions reached at that meeting were:

1. Existing accounting standards were not considered to be a particular burden on small companies;

2. Research should be undertaken to determine the extent of the burden they are;

3. The concept of dual standards was generally disliked and

4. It was suggested that it might be necessary to consider granting some dispensation to smaller concerns from future measurement standards.

However, at a meeting in June 1986, the ASC decided that, due to lack of secretarial support, the research project should be delayed.

Meantime, in 1985, the Institute of Chartered Accountants in England and Wales (ICAEW) funded a research project conducted by Carsberg, Page, Sindall and Waring. These researchers concluded:

1. A case does not exist for exemptions from all accounting standards of all companies below a certain size or of all private companies.

2 The standards most suitable for universal application are those dealing with fundamental topics that must be dealt with one way or another in the basic accounts. Standards such as SSAPs 2, 4, 5, 6, 8, 9, 12 and 14 impose only minor costs on companies and command reasonably general acceptance.

3. Where a standard would have minor importance for small companies, because they rarely undertake the transactions dealt with by the standard, consideration should be given to the exemption of small companies and the limitation of scope should be given prominent display.

4. The application to small companies of other standards, particularly standards dealing with complex issues, ... should be the subject of special study so that the ASC is informed about the potential costs and benefits of application to small companies. If the cost exceeds the benefit, small companies should be exempted.

5. The professional accounting bodies should consider whether or not additional steps need to be taken to maintain compliance with standards and inform members of the scope and requirements of existing statements.

In October 1986, The Accounting Standards Committee of the Institute of Chartered Accountants in Scotland also considered the issue of exemption for small companies from accounting standards. The committee largely agreed with the conclusions of Carsberg et al. and suggested that the Companies Acts requirements were far more burdensome than compliance with accounting standards.

The ASC, in the Technical Release series of the ICAEW (TR690 and TR706, 1989) , supported the Universality principle, but proposed some scope limitations for small companies. In issuing SSAP 13, a scope limitation was included (Para. 22 (a)(b)). The Institute of Chartered Accountants in Ireland's (ICAI) Accounting Committee (AC) was unhappy with this movement away from the principle of Universality. However, the scope limitation was not permitted for Republic of Ireland companies. The technical reason for this was that Irish company law overrode the limitation.

Other standards containing scope limitations included SSAP10 (now withdrawn), SSAP 16 (now withdrawn), SSAP 3 and SSAP 14 (now withdrawn).

In a letter of April 18 1989 to the ASC, the AC recorded reservations with scope limitations on the grounds that:

1. Scope limitations ... represent a withdrawal from the principle of Universality which is supported by the Accounting Committee and, indeed, by the ASC.

2. The TR706 definition suffers from the disadvantage that it involves arbitrary size criteria (for example, ten times the medium-sized company thresholds). While accepting there could be a case for some modification of universal application of accounting standards, it should not be on the basis of arbitrary size criteria.

3. Exemption should not apply to measurement standards.

4. The ICAEW 1985 research study concluded that there is no evidence to suggest that in general small companies find compliance with accounting standards burdensome.

5. The materiality test which is in place for all SSAPs provides safeguards against burdensome application of accounting standards. We fully accept that complex SSAPs should not be applied to immaterial items.

The issue of exemption for small, owner managed companies again surfaced in the early nineties, and the CCAB established a working group, at the request of the Accounting Standards Board (ASB), to make recommendations.

CCAB Working Group

Background

Following the establishment of the ASB in 1990, the style and content of accounting standards changed. They became longer and more complex. This was due to the early emphasis by the ASB on closing complex accounting loopholes which had been exploited, mainly by large publicly accountable entities, in the 1980s. Accountants dealing with the financial statements of small, owner managed companies became increasingly concerned at the volume of standards and the perceived lack of relevance to small companies. In the UK, representations were made to the ASB to consider the position of such small companies and to make appropriate provision for the application of standards to them. In 1994 the ASB asked the CCAB to set up a working group, which was subsequently established under the chairmanship of Ken Wild (a member of the ASB), with the following terms of reference:

‘The Board, like its predecessor, the Accounting Standards Committee, examines, on a standard by standard basis, whether exemption from all or part of the standard should be provided for certain types of enterprise on the grounds of size or relative lack of public interest. The working party is asked to recommend to the Board, on the basis of a wide consultation, appropriate criteria for making such exemptions.’

In Ireland, the AC had received representations from general practitioners regarding the increased burden of accounting standards in the period 1993 - 1995. Practitioners were concerned, not so much by the burden of individual standards, but by the cumulative effect of the number of standards which had been issued in a relatively short period of time. This had been aggravated by the increasing burden of auditing standards, company law requirements, tax regulations, insolvency regulations and investment regulations. The accumulated burden of regulation from all sides seemed to be becoming intolerable. The AC reported this view to Sir David Tweedie, Chairman of the ASB. Ireland was then invited to send a member to join the working group. Michael Moor a member of the AC and himself a general practitioner, agreed to join the group and to represent the views of the Irish general practitioners.

Recommendations of the CCAB Working Group

The Group engaged in extensive consultations which included a visit to Ireland by Ken Wild and Robert Langford (Head of Financial Reporting at ICAEW and secretary to the Group) to meet representatives of the AC, the Members in Business Directorate and the Smaller Practitioners Committee. The Wild Group did not, however, conduct or commission any ab initio research to determine the extent of the problem of compliance with accounting standards by small companies.

In November 1994, the Group issued a Consultative Document (CD) inviting interested parties to respond before March 1995. The main recommendations of the CD were:

1. There are some, less complex entities for which a true and fair view could be communicated by applying simplified accounting and disclosure requirements.

2. Due to the difficulty in defining ‘less complex' entities, the Companies Acts definition of ‘small company' should be used for exemption.

3. The approach to be used would be to identify core standards applicable to all enterprises. All other accounting standards would then not be mandatory for exempt companies.

4. The proposed exemptions would be optional.

Response to the CCAB Working Group CD

Although there was a good response to the principle of reducing regulation for smaller companies, 37% of the respondents were broadly against the above proposals. The Revenue Commissioners in Ireland were not in favour of such far reaching exemptions, although they were broadly in favour of exemptions for companies with a turnover of less than £100,000 (the level set by the Task Force on Small Companies). ICAI's response reflected mixed views, with the Smaller Practitioners Committee and the Members in Business Directorate enthusiastically in favour of the proposals without significant reservation. The AC, however, expressed reservations about a number technical issues although it supported the principle of reducing the regulation overload. The AC had had limited success in soliciting the views of practising members and was uneasy with the lack of research on which the conclusions of the CD were based. The ICAI sent a joint document to the Working Group incorporating the opposing views of the Institute Committees. At a subsequent Council meeting (March 1995) the issue of Council sending apparently contradictory views to outside bodies was discussed. It was agreed that in responding to regulatory bodies, there may, legitimately, be more than one view from the Institute. However, it was agreed that the views of the Smaller Practices Committee and of the Members in Business Directorate, agreeing without reservation to the proposals of the CD, should be sent to the Working Group.

The Working Group received 112 responses to the CD. They may be summarised as follows:

	Broadly Favourable	Broadly Against	Unclassifiable
Accountancy bodies	4	4	
District societies	4	2	
Other bodies	6		2
Academics	1		1
Large/medium firms	4	16	1
Small firms	32	16	1
Users	6	3	1
Preparers	8		
TOTAL	65	41	6

While commentators from small firms of accountants were 2:1 in favour of the suggestions of the CD, there was significant opposition to its proposals. The Working Group, having 'tested the water', reviewed all the comments and drew up a list of research projects to be undertaken as part of the progression of the project. This current study is conducted in collaboration with the Working Group to determine, inter alia, a number of the Working Group's research objectives, as follows:

- The perceived costs of compliance by small companies with accounting standards
- The most common transactions entered into by small companies
- Which of the current body of standards and abstracts are perceived as applicable to small companies
- The extent to which an OFR might be useful in the context of small companies' financial statements
- The benefits of a cash flow statement

'Designed to Fit'

A White Paper was published by the Working Group on 18 December 1995, before the results of this and other research were available. The White Paper is designed to form the basis for recommendations to the ASB. The main thrust of the White Paper is that a single document be issued which would contain all the accounting standards applicable to small companies, this document to be known as the

Financial Reporting Standard for Smaller Entities (FRSSE). It does not suggest significant changes in measurement rules and aspires to remove inappropriate disclosure requirements and eliminating significant anti-avoidance rules. Neither does it address the specific requirement of the terms of reference from the ASB of identifying 'appropriate criteria for making .. exemptions'.

SECTION 2: THE ISSUES

UNIVERSALITY

Limited liability status bestows certain privileges on business enterprises. The key benefit is that the liability of the shareholders is limited and, in Ireland, there are taxation benefits. Clearly such benefits cannot be without some form of checks and balances on the directors. These include the legal requirements for all limited liability companies to have an independent audit and for their financial statements to give a true and fair view. In the UK there are limited exemptions for small companies from the disclosure requirements of the Companies Acts and there are audit exemptions for companies with a turnover of up to £350,000. In Ireland it is proposed to exempt companies with a turnover of up to £100,000 from the audit requirement. There are no proposals to exempt small companies from any of the other statutory provisions.

In the UK, there is also a legal requirement for limited companies to comply with accounting standards. In Ireland, although there is no comparable statutory provision, there is a prima facie expectation that in order to arrive at a true and fair view, the accounting standards must be complied with. Additionally, the professional bodies require their members to comply with accounting standards. The principle of Universality presumes that all limited liability companies (no matter how small or large and no matter how controlled) have the same benefits of limited liability status and are required to show the same true and fair view. Therefore, they should comply with the same standards in arriving at that true and fair view. Universality also assumes that, since standards are designed to enhance comparability of financial statements, it is imperative that they are applied universally to permit comparability of large companies with small. Indeed if flexibility were permitted for small companies, it would not be possible to compare small companies with other small companies. If the principle of Universality were waived for some companies based on size or control, it would be necessary to define a ring fence around companies required to continue to comply with the full body of standards. Such a procedure would, of its nature, be arbitrary and could provide a form of accounting arbitrage whereby the results of a company could be displayed in a more favourable light due to the availability of compliance/non-compliance choice.

ARGUMENTS IN FAVOUR OF EXEMPTION FOR SMALLER COMPANIES

In Ireland in 1994, following the publication of the CCAB's Working Party Consultative Document, the AC invited interested parties to comment (Barker, 1994). The response to this request was poor, with less than a score of general practitioners indicating their views. Those views could best be summarized as 'mixed'. The main arguments put to the AC by commentators for relaxation of the rules for small companies hinged around the cost/benefit argument. The practitioners identified (but could not quantify) the following costs of compliance with accounting standards for their small company clients:

- The cost of training the accountant and his/her staff in all aspects of all standards, in order to be in a position to judge whether a particular standard is applicable to the company,

- The cost of the time involved in going through the check list of all standards to provide assurance that each standard is not applicable to the company,

- The cost of collecting, summarising and computing the figures and supporting information to be disclosed if a standard is applicable, (it was estimated that 50% of the fee charged by professional accountants to small company clients was related to the cost of compliance with 'regulatory extras'),

- The cost of auditing such information,

- The cost of disclosure of sensitive information to competitors where larger organisations can usually conceal such detail in group financial statements,

- The cost of loss of credibility with clients and fee write-off when accountants are required to produce pages of 'gobbledygook' which then require explanation and for which the client is reluctant to pay,

- The cost associated with the general disrepute into which the profession is falling as a result of the false assurance which users are drawing from compliance with more rigorous accounting standards, All the above costs were described in the context of the disproportionate benefit which the users of small company financial statements are said to derive when compared with the benefit which the users of larger enterprises derive from the financial statements.

Additionally, the point was made that the profession could gain great PR advantage by responding to the public demand for simplification and de-regulation for smaller enterprises - which constitute more than 90% of Irish businesses.

Although the above arguments were expressed forcibly, there was no evidence to support the extent to which they are held or the extent to which they are actually experienced by small businesses in Ireland. Hunt (1995) claimed to voice the frustration of the small practitioner in Ireland:

'The working practitioner is getting heartily sick of the mountain of paper generated by the ASB ... [which is] unelected and apparently unaccountable only to [its] own perception of what constitutes the public interest. ... Of course no one is going to object to special rules for plcs to avert public concern but surely it is common sense that standards should be set with the normal in mind, i.e. the small family company.'

O'Brien (1995) also voiced concern at the volume of accounting standards for small practitioners:

'It is becoming increasingly difficult for professionals to keep pace with the growing number of standards. This is undoubtedly a factor in the Wild Committee report, a consultative document prepared by a working party of CCAB ... which suggests exempting small firms from virtually all accounting standards.'

Again, no rigorous evidence is offered to support these claims, although clearly, they are heartfelt.

Arguments Against Exemption for Small Companies

Arguments presented to the AC in support of the retention of the universal application of accounting standards may be summarized as follows:

- The Chartered Accountancy qualification is a hard earned combination of academic performance and practical experience. If we introduce different standards for smaller companies, the perceived quality gap between those qualifying in large practices and their colleagues in smaller firms will undoubtedly grow. This cannot be good for the unity of the profession and will lead to a tiered qualification.

- Limited liability status gives immense advantages to business. While the compliance costs of maintaining limited liability have increased, the privilege of that status still outweighs the costs. While directors may prefer minimum fuss, the responsibility of the financial accountant extends beyond the members these days. All standards must be addressed positively. It is currently possible to exempt companies from certain standards on grounds of materiality.

- The financial statements of all companies must show a true and fair view. While it is true that the true and fair view is an imprecise position, making it subject to less regulation for some entities will only increase the imprecision.

- The most significant burden on small companies in complying with accounting standards relates to the disclosure of a large volume of information. While the Universality principle should still apply, it may be possible to exempt smaller companies from specified disclosure requirements of individual standards.

SECTION 3: THE IRISH RESEARCH PROJECT

METHODOLOGY

Introduction

The research was based on a study of the views of practitioners in Ireland (North and South). Since the ICAI records show that a majority of Irish small company financial statements are prepared by the auditor, it was felt that a survey of practitioners would give the best indication of the issues surrounding the preparation of financial statements in compliance with accounting standards.

In determining the total population to be surveyed, the Register of Audit Registered Firms in the ICAI was consulted. This showed the following spread of firms:

Table 1

No. of Partners	Total number of firms
1	713
2 - 3	251
4 - 5	32
6 - 10	9
11 - 20	1
21 - 50	5
TOTAL	**1011**

In selecting the sample to be surveyed, one partner was selected at random from each the firms in the categories 4 - 5 partners and one partner was selected at random from a random sample of firms in the categories 1 - 3 partners. The random sample resulted in one firm in five in this category receiving a questionnaire. In total, 240 registered practitioners were circulated with the questionnaire.

Objectives

The study was designed to provide some measure of comparison with the study conducted by Carsberg et al. (1986) in the UK and to encompass the research agenda of the Wild Working Group. The specific objectives of this study were:

1. To set the issue of compliance with accounting standards in the context of problems faced by small companies and practitioners.

2. To determine the perception of factors in defining a small company for the purposes of exemption from accounting standards.

3. To determine the extent to which small companies engage in particular accounting situations.

4. To assess the uses and benefits of financial statements of small companies.

5. To consider the costs and burdens of financial statements in general and accounting standards in particular.

6. To assess the extent of compliance with the existing body of accounting standards by small companies.

7. To consider the level of opinion on the burden of compliance with accounting standards.

8. To assess the level of support for some form of relaxation of accounting standard application for small companies.

9. To consider specific standards.

10. To determine the usefulness of OFR and Cash Flow statements in small company financial statements.

11. To assess any concerns with the relaxation of Universality

Questionnaire

Because of the wide geographic spread of the people whose views were sought, the use of interview or focus group was impractical. A questionnaire was deemed to be the most effective mechanism, with a combination of open and closed questions.

In order to achieve the objectives mentioned above, the questionnaire was piloted with four general practitioners, two in the Dublin area and two in the Limerick area. Difficulties identified with the questionnaire were considered and appropriate modifications made. These modifications were then considered by the same practitioners. Once the questionnaire had been designed, it was reviewed by Judy Fay, Practice Advisory Executive of the ICAI, and by James Hunt, Chairman of the Smaller Practitioners' Committee.

A personalised covering letter outlining the objectives of the research was attached to the questionnaires and signed by Judy Fay and James Hunt. After ten working days, a reminder letter, signed by the researcher, was sent to non-respondents.

Response Rate

The response rate, following the reminder, was 60%. Non-respondents were examined to detect any non-response bias. With one exception, the non-respondents did not represent any particular cluster in terms of size of practice, age of respondents, geographic location or specialism of practice that varied significantly from the total field. The single exception was that questionnaires sent to practitioners in Big Six firms resulted in a 5% response rate. On telephone contact, these recipients of questionnaires indicated that they did not have sufficient experience with small companies to answer the questionnaire. In order to ensure the inclusion of the views of partners in the Big Six firms, the partners or directors in charge of the Big Six 'Small Business Department' were interviewed.[1] The sole practitioner practices represented 69% of the total field and in our study sole practitioners constituted 56% of respondents. This is not a significant variation, but on telephone contact, a number of the sole practitioners indicated that the reason for not replying was pressure of work and 'insufficient help with administrative tasks'.

In addition to the above elements of data collection, the researcher met with Chairmen of the Network Committees from all around Ireland to discuss the issues raised in the questionnaire and attended a meeting of the Committee of Smaller Practitioners in Ireland to elicit its members' views on the issues surrounding compliance with financial reporting standards.

Analysis

The data were analysed using SPSS for Windows. The qualitative data obtained in the open questions were coded for analysis.

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[1] The name of this department varied. For example, it was called Entrepreneurial Services Department in one, and Emerging Enterprises Department in another.

SECTION 4: RESULTS OF THE STUDY

INTRODUCTION

80% of respondents had 10 years or more post-qualification experience. 60% had 15 years or more. Table 3 indicates that the results of the study are not biased by the views of a preponderance of newly qualified respondents or by older practitioners. The profile of the firms represented by the respondents is as follows:

Table 2

Respondents:	
Sole practitioners	56%
2 partners	20%
¾ partners	14%
5/6 partners	7%
More than six partners	3%

Respondents were asked for what percentage of clients do they prepare accounts. 76% of the respondents prepare accounts for between 90 and 100% of their small company clients. There is a significant difference between the larger practices and the smaller practices. The smaller the practice, the more likely is the respondent to prepare the accounts for the client. This confirms the premise that the general practitioner is in a position to answer questions on the preparation of the financial statements of small companies.

Respondents were asked to indicate how long it was since they had qualified. The profile of respondents is as follows:

Table 3: Years since qualification

Years	% Respondents
1 - 4	4
5 - 9	15
10 - 14	24
15 - 19	17
20 - 29	25
30 - 39	13
40 - 49	2

The analysis which follows refers to the research objectives outlined in Section 3:

1. To Set the Issue of Compliance with Financial Reporting Standards in the Context of Problems Faced by Small Companies and Practitioners

1.1. Issues for the smaller practitioner

When asked what the three major problems faced by the smaller accountancy practice are, respondents identified the following issues:

Table 4

	% of Responses
Regulation and compliance	28
Profitability and cash flow	21
Keeping up to date	14
Competition from CPAs and Big Six	13
Staffing issues	7
The Revenue	5
Office & practice management	5
Others*	7

**'Others' included Institute bureaucracy, keeping clients satisfied and litigation.*

In the commentary, a number of respondents (85% of whom were sole practitioners) mentioned unfair competition from those of whom a lower professional standard is demanded. Given that this was a questionnaire into the issue of compliance with financial reporting standards, it might be expected that respondents would be focused on the issue of regulation as a problem. In the commentary, however, there seemed to be an element of confusion in the minds of respondents between the financial reporting standards and the auditing standards. Regulation in general was grouped under this heading, and reference was made to the 'jigsaw of pain' of total regulation, of which 'accounting standards are only one piece'.

On analysis, the issues of regulations and compliance were ranked as the number one difficulty by a higher proportion of the sole practitioners than other respondents. The proportion decreases as the size of practice increases, although the difference is not significant. The problem of keeping up to date is also ranked number one by a greater proportion of sole practitioners than of the proportion of medium and large practitioners. The medium and large practitioners are more likely to rank profitability and cash flow as the number one problem, however they may not be speaking from direct experience of the problems of smaller practices. Of those reporting competition as a difficulty, 81% were sole practitioners, or respondents in practices with two partners. The larger practices did not report 'the Revenue' as a difficulty.

1.2 When asked if they thought those problems are different from those experienced 10 years ago, 80% thought to-day's problems are different. One in five thought that to-day's problems are no different. These were all sole practitioners who had all been in practice for more than 15 years.

1.3. In Carsberg et al's study in the UK in 1985, practitioners were asked what the major business difficulties experienced by their small company clients were. This question was asked in this study to establish the context in which the issue of compliance with standards fits in relation to general business problems. Table 5 shows the response to this question with the UK results from 1985 given in italics. The ranking is by % of the total responses, and the count indicates the number of times a particular problem was mentioned. Most respondents mentioned three problems, but some gave two or four.

Table 5

Problem:	**% of Responses** 1996	**% of Responses** 1985	**Count**
Taxation and revenue audits	25	*0*	81
Labour law and regulations	16	*0*	51
Cash flow and credit control	15	*20*	48
Regulation	13	*9*	44
No growth in the economy	12	*7*	38
Obtaining finance	9	*21*	31
Profitability	7	*0*	22
Lack of management skills	3	*0*	9
Obtaining orders		*20*	
Personnel		*8*	
Supply of raw materials		*6*	
Other		*9*	

Although there are some points of similarity between the problems identified by practitioners in Carsberg's study (cash flow and obtaining finance were identified by both), the introduction of the Revenue audit, which did not exist in its current form in 1985, is now seen as the major problem facing small Irish companies.

There is a heavy emphasis on the matters which are financially based and which would be associated with the mainstream work of the accountant and auditor. There is little mention of the more commercial matters with which business deals, including obtaining orders, competition, marketing issues and so forth. This may indicate that the smaller practitioner is not close to the clients' commercial decision making on a day to day basis and deals mainly with the client's strictly accounting and financial problems.

Regulation in general is identified as a problem, although respondents did not refer specifically to accounting regulation.

2. TO DETERMINE THE PERCEPTION OF THE FACTORS IN DEFINING A SMALL COMPANY FOR THE PURPOSES OF EXEMPTION FROM ACCOUNTING STANDARDS

One of the key factors that needs to be addressed in the context of de-regulation for small companies, is the issue of which companies could be excluded from the full rigour of accounting standards.

The most important factors identified are set out in Table 6, which shows the number of times respondents mentioned these factors (some respondents mentioned more than one factor):

Table 6

	Count
Turnover	92
Total assets	84
No. of employees	76
Ownership structure	76
Users	62
Lack of internal control	45
Complexity of company	40
Personal management style	33

Respondents were clearly focused on the Companies Acts criteria for size, and ownership structure featured high on the preferences for defining small companies for exemption. Commentary indicated a feeling that companies with a 'husband and wife' ownership structure should be seen in a different light to a company with a broad range of non-manager shareholders. This links in with the feelings of the Big Six representatives who suggested that the 'small company, growing' should be seen differently from the 'man and girlfriend' business which simply uses the cloak of limited liability to obtain tax advantage and limited liability status. The point was also made that for these very simple owner/managed companies, the limited liability status is of limited use as the financiers will usually demand personal guarantees and security.

The Big Six interviewees consistently made the point that, for purposes of exemption, a distinction must be drawn between the 'small company, staying small' and the 'small company, growing'. They classified most of their small company clients in the latter category and they indicated that there is little demand from those clients for a more relaxed regulatory regime. They agreed that clients with ambitions to grow are more willing to accept regulation: they see the accounts as a means to assist in interesting others in the company. Growing companies are always looking for outside investors, including overseas investors and they do not want any suggestion that their accounts 'look leaky'. The Big Six interviewees felt that approximately 90% of their small company clients would continue with the full rigour of accounting standards, even if exemptions were available. They did not expect any avoidance schemes to position medium or large companies outside the ring fence for applying the full rigour of accounting standards. They felt it would be too expensive and of no particular value.

The point was also made by some commentators that the small company in a start up situation may be a better target for a more relaxed regulatory regime, in order to assist in the difficult start-up period.

3. To Determine the Extent to which Small Companies Engage in Particular Accounting Situations

In order to assess the extent to which small companies engage in the kind of situations which require complex accounting standards, respondents were asked whether their small company clients met certain situations regularly, occasionally or never. The response is shown in Table 7.

Table 7

	Regularly **%**	***Occasionally*** **%**	***Never*** **%**
Group Accounts	>1	36	63 *
Gov. Grants	11	83	6 *
R&D	1	38	61 *
Def Tax	12	46	42
Contingencies	9	66	25 ♦
PBSE	17	66	17
Inv. prop.	8	68	24 *
Forex	21	68	11 ♣
Leasing	71	26	3
Pensions	57	38	5
Terminations/Commencements	11	72	17
Complex Fin. Instruments	>1	20	79
Related party transactions	8	60	32

* *Direct linear relationship between incidence and size of practice, i.e. larger practices are more likely to report 'regularly' and less likely to report 'never' than the smaller practices, although there were cells with expected frequency < 5.*

♣ *Although there is no linear relationship, all the respondents reporting 'never' for foreign currency transactions were in the one or two-partner practices.*

♦ *There was a significant difference between firms with one, two or three partners and those with four + partners, the respondents reporting 'never' were all sole practitioners.*

A high proportion of respondents came across these transactions occasionally or regularly for small company clients. Although they are not all met regularly for all clients, there would appear to be a need for guidance on most of the issues with the possible exception of complex financial instruments (although 20% of practitioners see them occasionally) and group accounts.

4. TO ASSESS THE USES AND BENEFITS OF FINANCIAL STATEMENTS OF SMALL COMPANIES

4.1. Benefits attaching to financial statements

Respondents were asked what benefits they believe attach to the annual audited financial statements of small companies. The weighted ranking given by respondents, with comparative responses from Carsberg's findings from 1985, were:

Table 8

	1996	**1985**
Planning & decisions*	35%	35%
Tax purposes	21%	26%
Bank purposes	19%	30%
Review of performance	11%	
No benefit at all	10%	
Independent opinion	8%	
Good discipline	4%	
Other		9%

* *This includes planning for the future, and decisions relating to directors' emoluments and dividends.*

Carsberg found that the most important use was the use by management. The current view of Irish practitioners is the same, with the use of accounts for tax purposes and for the bank coming second and third respectively.

The view expressed by the Big Six interviewees was that directors and shareholders do not really understand the formal financial statements. They understand the need for a set of accounts prepared by a 'safe pair of hands' when they are in negotiation with the Revenue and the bank. These interviewees took the view that the preparation of financial statements to a high standard is not for the benefit of the owner: they facilitate the banks, Revenue and other outsiders in their assessment and comparison of the company with others. They also give confidence in the calculation of value and performance and they lend transparency. The disclosure requirements are for the benefit of people judging the company who want to ensure that they are not dealing with 'fly-by-night' companies. This group disagreed with the view that the management is the primary user of the financial statements. In their experience, the daily/weekly/monthly management information system is of far more advantage to management and they, as professional advisers, spend more time with the clients setting up and advising on the monitoring of the management information systems than they do in preparing and reviewing the annual accounts.

4.2. The most important users of the annual audited financial statements

In a follow-up question to confirm the perceived importance of the users of financial statements, respondents ranked users as follows:

Table 9

	% of Responses
Directors/owners	57
Bank	25
Revenue	24
Suppliers	2
Customers	1
Employees	1

57% of respondents felt that the owner/director user group was the most important. One in four of the respondents felt that the Revenue were the most important users and 42% felt that the Revenue were the second most important users. Similar statistics were reported for the banks although 45% felt they were the second most important users after the shareholders. Customers and suppliers ranked low, and 28% of respondents ranked customers of no importance with 19% of respondents ranking suppliers of no importance. Employees were ranked the lowest: 50% of respondents ranked them as least important and 30% did not rank them at all .

It is noteworthy that the shareholder is deemed by 57% of respondents to be the most important user of the accounts. This ties up with the response given to the question on benefits of the financial statements. It would be a useful follow up study to investigate the potential for improvement in management information systems in small companies. This finding has implications for the ASB when considering the proposal in the FRSSE to drop the reference to the financial statements having a use in making economic decisions

4.3. Owners' use of financial statements

In a follow-up question to determine the use made by the users of financial statements, respondents were asked to rank the financial statements as of major, minor or no influence in certain economic decisions. Carsberg's findings in 1985 are also shown for comparison:

Table 10

DECISION	**INFLUENCE**					
	Major		Minor	None		
Respondents:	%	%	%	%	%	%
	1996	1985	1996	1985	1996	1985
Pricing decision	21	33	49	53	30	14
Dividend decisions	56	84	24	14	20	2
Directors' pay	58	84	34	14	8	2
Borrowing decisions	62	57	31	33	7	10
Cash management	31	29	50	43	19	28
Capital expenditure	40	43	43	43	17	14
Staff pay	14	20	57	51	29	29

It is noteworthy that 31% of respondents felt that the accounts were of major importance in cash management decisions, when the information is not usually available until at least three - six months after the year end. This confirms that the accounts are of use in economic decision making. In an era of 'ability to pay' decisions in wages negotiations and the move from Europe towards employee participation[2], it is of interest to note that very few respondents felt that the accounts were important in wage negotiation. In this regard, the Irish situation is perceived as being very little different to that pertaining the UK in 1985. While it would be expected that dividend decisions would be based on the annual accounts, just under half of the respondents did not feel that they were of major importance for this purpose. In contrast, Carsberg's research found that the annual financial statements were of major importance in both dividend and directors' pay decisions.

4.4. Banks' use of financial statements

Respondents felt the main areas the banks look at (with comparatives for the 1985 study) are:

Table 11

	1996	1985
Capacity to repay	38%	27%
Profitability	21%	17%
Security	18%	28%
Liquidity	14%	13%
Reputation of auditor	4%	
Clean audit report	3%	
Directors' fees	2%	
Stability		23%
Performance trends		9%
Management, efficiency etc.		11%

Capacity to repay was identified as the most important issue for banks when examining financial statements. This further supports the idea that users want decision useful information and may cast a question over the recommendation in the FRSSE to drop the reference to decision usefulness. It would also lend support to the idea of including some meaningful OFR information.

4.5. What do Revenue Commissioners look for?

The Revenue Commissioners were identified as major users of the financial statements. Respondents felt that the following were the areas of the financial statements on which the Revenue focus:

[2] See: Council Directive 94/45/EC on the establishment of a European Works Council or a procedure inCommunity-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees. No. L 254/64 OJEU.

Table 12

	1996	1985
Gross profit	42%	
Directors' fees	18%	28%
Tax provision	13%	
Reasonable expenses	11%	
Clean audit report	8%	5%
Unexplained items	7%	
Capital items	1%	
Comparison with others		25%
Trends		20%
Accuracy of assessment		17%
Other		5%

There was a large difference in the perceptions of Irish practitioners and their UK counterparts. Irish practitioners did not mention the use by the Revenue of the financial statement for comparison with other companies or for assessing trends. This does not mean, of course, that they would dispute this usage, merely that they did not mention it specifically, although Revenue's examination of the gross profit ratios would certainly cover `trends'. Irish practitioners are very focused on the key indicators of gross profit percentage and directors' remuneration in judging what the Revenue examine.

5. TO CONSIDER THE COSTS AND BURDENS OF FINANCIAL STATEMENTS IN GENERAL AND ACCOUNTING STANDARDS IN PARTICULAR

5.1. Burden of annual financial statements to small companies

Respondents were asked which aspect of producing annual accounts the client found most burdensome. General bookkeeping problems were reported by 51% of the respondents as being the most difficult issue for clients. Stocktaking was nominated as the second most difficult issue by 20% of the respondents. 19% felt that the specific financial reporting requirements were the most difficult issue and 21% felt that the client had no problems since the financial statements were prepared by the accountant, although a number of respondents referred to the fact that clients complained about the cost of this service.

The Big Six interviewees indicated that clients never liked receiving a bill, but that since their emphasis was not on accounts preparation but on general financial advice, generally speaking clients did not dispute bills.

5.2. Most expensive elements of the accountant's total fee

In order to assess the cost of compliance with accounting standards in the context of the overall fee charged by the practitioner, respondents were asked to rank in terms of expense, the elements of their total fee to small company clients. The ranking was as follows:

Table 13

1. Accounts preparation
2. Annual audit
3. Tax returns and correspondence
4. General financial advice
5. VAT work
6. Bank information
7. PAYE and PRSI

This indicates an emphasis on preparation and audit of annual accounts, with in excess of 55% indicating that accounts preparation is the most expensive element and 38% indicating that audit is the most expensive. Two thirds of respondents did not rank general financial advice at all as an element of the total fee to small company clients. This suggests that practitioners are devoting most of their chargeable time to the traditional functions of accounts preparation, audit and tax returns and correspondence. A number of respondents indicated that they would prefer to spend less time on compliance work and more time on general financial and commercial counselling. They said that this kind of work is more beneficial to the client and is easier to 'bill and collect'. On analysis, the larger firms are more likely to rank financial advice higher than the smaller firms. It may be possible to conclude that in smaller practices a disproportionately large amount of time is spent in complying with regulation. Alternatively it may indicate that small practitioners may need to encourage clients to prepare their own accounts while they spend more time on providing more general financial advice. There is a significantly different emphasis among the Big Six respondents, which was referred to earlier.

Although revenue audits are seen as a problem by smaller practices for their clients, there is no indication that the provision of tax advice by smaller practices is ranked more relatively expensive than for the larger practices.

6. To Assess the Extent of Compliance with the Existing Body of Accounting Standards by Small Companies

The preparation and audit of the annual financial statements is seen by practitioners as a burden which absorbs much of their time and their small company client's money. In order to establish whether practitioners are complying with the existing body of accounting standards, they were asked a direct question on compliance. This is a self-judgmental question and, although the questionnaire was confidential and there was an undertaking that no individual information would be disclosed, it is possible that respondents suffered from the halo effect and over-estimated their level of compliance with accounting standards. If, on the other hand, respondents wished to emphasize the extent of their unhappiness with perceived information overload, they may have under-estimated their level of compliance. Compliance was declared by respondents as follows:

Table 14

	Accounting Standards %	**Company Law %**	**Both %**
Always	6	24	53
When material	16	1	10
Fundamental requirements	7		6
Measurement but not disclosure	1	1	2
Rarely comply	1		

Only just over half always comply with the standards and company law. However since both standards and company law need only be applied if material, almost two thirds comply with both the standards and the company law. There is a high degree of compliance with the standards and the law. When respondents did not always comply with both, they tended to comply with the law always and the standards when material.

7. To Consider the Level of Opinion on the Burden of Compliance with Accounting Standards

7.1. Is there too great a burden?

Respondents were asked if they felt there is too great a burden complying with accounting standards and company law. Their responses, shown below, were fairly definitive and perhaps predictable!

Table 15

	Yes	No	Don't know
	%	%	%
Acc. Standards	83	15	2
Co. Law	70	27	3

Of those answering 'yes' in respect of accounting standards, 43% suggested that the burden could not be reduced and the rest suggested either the removal of the audit requirement or passing on to management more of the work of preparation (see below).

The experience of the respondents since qualification had no impact on their view about the burden of company law. However, in relation to the burden of accounting standards, the practitioners with 5 - 9 years post qualification experience were more likely to say 'no' than the older members, or indeed, than the recently qualified.

The Big Six interviewees did not perceive a major problem in complying with the accounting standards. FRS8 (Related Party Transactions) was the only standard which they expect to cause difficulties for the small company clients. They perceived the requirements of the Companies Acts as more of a difficulty for small company clients than the accounting standards.

7.2. Are members falling behind in familiarity with standards?

Respondents were asked about the time spent on keeping up to date with accounting standards and whether they felt that they and their colleagues were up to date.

Table 16

% Chargeable time spent keeping up to date with accounting standards:	
Time spent	**% of respondents**
0% - 5%	68%
6% - 10%	25%
>10%	7%

Respondents commented that while they did not spend a great deal of time keeping up to date with accounting standards, it is the accumulation of time spent keeping up to date with all technical matters including legal and regulatory issues that they find burdensome.

When asked if respondents, their partners and staff are up to date with accounting standards, only 26% of respondents said they and their staff were up to date. 9% said they were but their staff were not and 5% said that they were not but their staff were. 57% said that neither they nor their staff were up to date.

There was no pattern emerging around age. There is an even spread of all categories across all age groups, so it is not necessarily the older accountants who are falling behind.

A high proportion of practitioners have a problem keeping up to date with standards. This has not, of course, been tested in an objective way: the respondents were not given any test , but were asked to self-assess. However, a number of commentators noted that the perception of being out of date creates a problem in itself. Some practitioners are worried about the growing 'pile of regulation' which they have not yet 'got around to reading'. So while, for all practical purposes, the financial statements prepared by respondents may comply with material accounting standards, they still have a worry that there may be something in the more recent standards that should be complied with.

The Big Six interviewees did not see any problem in keeping up to date with accounting standards. Their Technical Departments keep them well briefed on current changes. One partner described an 'Audit Alert' document which is issued regularly by the technical experts in the firm which highlights issues of relevance for the smaller clients. The other firms have similar systems. Additionally there are inhouse courses to remind them of new issues that apply. There is a standard financial statements package which is available firm-wide for all clients and this is updated regularly, so additional regulation does not constitute a significant marginal cost for individual clients.

8. To Assess the Level of Support for Some Form of Relaxation of the Accounting Standards for Small Companies

8.1. Respondents were asked how the burdens of producing annual financial statements could be reduced.

The percentage of responses is given below in Table 17 with corresponding figures for 1985:

Table 17

In what ways could the burden of producing accounts be reduced?		
	1996	**1985**
	% of total responses	
Remove the audit requirement	25	17
Reduce disclosure	18	47
Management to do more itself	16	10
Reduce regulation	15	
Computerisation	8	2
Special standards for small coys	6	
No way of reducing burden	6	20
Reduce no. of accounting stands.	4	
Complete exemption	2	
Other		4

A number of respondents answered more than one possible solution: 31% suggested removing the audit requirement, 22% suggested less disclosure, 20% wanted the management of companies to do more of the accounts preparation themselves. Of the respondents suggesting that management do more, all were from firms with one or two partners. Although the questionnaire referred to compliance with Accounting Standards, many respondents indicated a degree of fuzziness around the distinction between Accounting Standards and Auditing Standards.

2% of respondents (all sole practitioners) opted for complete exemption from accounting standards. 4% (all from firms with less than four partners) wanted to reduce the number of standards. Respondents mentioning 'computerisation' were from firms with less than four partners. This indicates that there does not seem to be a significant demand to exempt small companies completely from accounting standards or to reduce the number of standards. The favoured approaches seem to be a reduction in the audit requirement, less disclosure, a general reduction in regulation and more responsibility for financial statements being taken over by the companies themselves.

8.2. Do small company clients need audits?

In assessing the support for some reduction in the audit requirement for small companies in an effort to reduce the regulatory burden, respondents were asked if they felt that small companies should be required to have their financial statements audited. The response was Yes: 35% No: 44% Some do: 21%

65% of respondents would favour some form of exemption from the audit requirement for small companies.

8.3. What would be the effect on fee income if the compulsory audit requirement were reduced?

Table 18

Increase fee income	1%
Reduce fee income	48%
Non change, other fees will replace	46%
Don't know	5%

The respondent expecting an increase in fee income estimated that it would be in the 20% region. Of those expecting a reduction, approximately half estimated it to be up to 10%, with most of the other half expecting between 10 and 25%. 85% of those expecting a reduction in excess of 10% were in medium and large practices. This may be explained by the fact that smaller practices see scope for offering more financial counselling services to their clients if they could spend less time on statutory work, and this would maintain the buoyancy of their fee income.

8.4. If less time spent complying with accounting standards:

Respondents were asked what would be the result of less time spent complying with accounting standards. They responded as follows (with comparative figures for the 1985 study):

Table 19

	1996	1985
Reduce time and fees for work for clients	22%	64%
Spend more time on other work for clients	60%	33%
Insignificant time spent on standards at present	11%	
Don't know	7%	3%

There is a difference between Carsberg's findings in 1985 and the perception of Irish practitioners in 1996. 60% of respondents to this study felt that they could spend more time on other work for clients. This aligns with the written comments of respondents who indicated that they would prefer to spend more time giving general financial and commercial advice to clients. Only 11% estimate as 'insignificant' the time spent on accounting standard compliance at present and they came from firms of varying sizes.

9. To Consider the Applicability of Specific Standards

Respondents were asked to address the body of standards and to identify the standards which they think should apply to small companies. 43% of respondents simply said that all standards should apply to all companies, if they were applicable and if the issue were material. Of the respondents who picked out applicable standards, the following percentages identified Standards applicable, in descending order of perceived importance:

Table 20

Standard	% Respondents
SSAP 5 - VAT	86
SSAP 2 - Accounting policies	84
SSAP 9 - Accounting for stocks	84
SSAP 4 - Government grants	83
SSAP 12 - Depreciation	79
SSAP 8 - Accounting for taxation	75
SSAP 17 - PBSE	70
SSAP 21 - Leasing	68
SSAP 18 - Contingencies	53
SSAP 20 - Foreign currencies	44
SSAP 24 - Pensions	42
SSAP 19 - Investment properties	28
SSAP 13 - Research and Development	26
SSAP 1 - Associated companies	26
SSAP 22 - Goodwill	24
UITFA 7 - True and fair override	24
FRS 8 - Related party transactions	20
UITFA 4 - Long term debtors in curr ass	20
SSAP 15 - Deferred tax	19
FRS 1 - Cash flow statements	18
FRS 5 - Reporting the substance of trans.	15
UITFA 10 - Directors' share options	11
FRS 3 - Reporting financial performance	11
UITFA 5 - Transfers from curr to fx. assets	10
UITFA 6 - PBS Benefits or than pensions	9
FRS 2 - Subsidiary undertakings	9
FRS 7 - Fair values in acq. accounting	6
UITFA 3 - Goodwill on disposal	6
UITFA 12 - Lessee accounting	5
FRS 4 - Capital instruments	4
FRS 6 - Mergers and acquisitions	4
UITFA 9 - Ops. in hyperinflationary cond.	4
UITFA 11 - Issuer call options	1
UITFA 13 - Esop trusts	0

This was skewed in favour the earlier standards, with the later standards and abstracts attracting a smaller percentage of applicability. This is consistent with the respondents, admission that they are not fully up to date with the standards and it may be that they failed to tick the later standards, as they were not aware of or fully familiar with their content.

10. To Determine the Usefulness of Operating & Financial Reviews and Cash Flow Statements in Small Company Financial Statements

10.1. OFR

Respondents were asked if they thought there was a need for something similar to the OFR in the financial statements. Because it was possible a number of the respondents would not be familiar with the OFR, a brief description of its contents was given. Respondents answered as follows:

Table 21

OFR for small companies?	% Respondents
Yes	44
No	27
Uncertain	16
Unfamiliar with OFR	13

There were more people in favour of such disclosure than against it. However, the interviewees in the Big Six were not in favour of disclosures along the lines of the OFR. They felt it would not be appropriate for the 'small company, staying small' although it may be of interest for the users of the financial statements of the 'small company, growing'. However, if some requirement were introduced to produce an OFR for small companies, they foresaw that their technical departments would just give them a form of words to satisfy any requirement and then all companies would trot out the standard wording which would be meaningless. The auditor would then just draft something equally bland and meaningless. OFR could cause 'a hundred times more pain than any accounting standard'.

Of those unfamiliar with the OFR, 70% were qualified more than 20 years. Neither support nor opposition were influenced by age.

10.2. A simple cash flow statement?

Respondents were asked if they would favour the inclusion of a simple cash flow statement in the financial statements of small companies. They answered:

Table 22

Yes	55%
No	38%
Uncertain	7%

While more than half of general practitioners surveyed supported the inclusion of a cash flow statement, the Big Six interviewees were not in favour of such a document. They said that clients need to know cash information on a day to day basis and that there was no demand from other users. In any event, they contended, the financial statements would be published too late for cash information to be meaningful.

Neither age nor experience had any impact on this response.

11. To Assess Any Concerns about the Relaxation of Accounting Standards for Small Companies

Respondents were asked if they would have any concerns about such a relaxation. They were asked if they would be concerned, unconcerned or of no opinion about a number of potential issues arising from the exemption of small companies from standards. They indicated:

Table 23

	Concerned	No Opinion	Unconcerned
	%	%	%
Two tier profession	41	16	43
Loss of credibility for profession	36	15	49
Lowering of standards	43	12	45
Loss of comparability	31	24	45
Loss of true and fair view	40	19	41
Complexity of dual system	29	34	37
Increased confusion	35	27	38
Non-acceptance by banks	48	15	37
Non-acceptance by Revenue	44	17	39
Reduction in reliability	49	19	32

Most issues cause concern to between 30% and 50% of respondents, but there is nothing that causes concern to more than half of the respondents. Ignoring the respondents with no opinion, there is generally a slightly higher proportion of respondents unconcerned than concerned, except for the issues of reliability, and non acceptance by the Banks and Revenue which appear to give more cause for concern than the other issues.

There was a tendency for older respondents to be more concerned by the issue of lowering of standards than for younger respondents, otherwise there were no differences arising from age or size of practices.

The Big Six interviewees were not concerned about such a relaxation. They felt that the majority of their small company clients would continue with the full battery of accounting standards even if they were offered the option of exemption.

SECTION 5: SUMMARY OF FINDINGS

1. Is compliance with accounting standards a significant problem in the context of problems faced by small companies and by general practitioners?

Practitioners place compliance with regulation in general as their number one problem in running their practices. It features ahead of profitability and cash flow. Keeping up to date with regulation is also perceived as being a major problem. Complying with and keeping up to date with accounting standards was seen as one element of this problem. In the 'jigsaw of pain', accounting standards were seen as one piece. For the client, the Revenue audit is seen as the major problem.

2. If small companies are to be accorded some exemption from accounting standards, what are 'small companies'?

There was general acceptance that the Companies Acts definition of a 'small company' would be a good practical definition.

The 'small company, staying small' was distinguished from the 'small company, growing'. The view was expressed that the 'small company, growing' would insist on having the option to apply the full body of accounting standards.

In allowing exemption from regulation, it was suggested that special consideration might be given to the small company in a start-up period.

3. Do small companies engage in activities which would require complex accounting standards?

Apart from complex financial instruments and group accounts, all other accounting issues are met occasionally or by a significant number of respondents.

4. To what extent are financial statements of small companies useful?

General practitioners believe the financial statements are primarily useful to the owners/directors. Big Six practitioners believe the financial statements are less useful to the owners/directors than regular monthly management information. The Revenue and the banks are perceived as being the next most significant users of financial statements, again for economic decision making.

5. What are the costs and burdens of the preparation of the financial statements?

General practitioners see the costs of the preparation and audit of the financial statements as the most significant cost. Seven out of ten respondents spend up to 5% of their chargeable time keeping up to date with accounting standards. However, the cost is seen as a total cost in keeping up to date with regulation in general. Big Six preparers do not see the preparation and audit of financial statements as an excessive burden . They regard the cost of ongoing financial counselling as the most expensive element of their chargeable time to small company clients.

6. What is the level of compliance with accounting standards?

Although practitioners do not think many of the standards apply to small companies and although they do not regard themselves as up-to-date with the requirements of accounting standards, they report a high level of compliance with the accounting standards and with company law.

7. Do practitioners think compliance with accounting standards imposes too great a burden?

83% of general practitioners feel that the burden of compliance with accounting standards is too great. 70% of them think the burden of complying with company law requirements is too great. 57% felt that they, their partners and staff were not up-to-date with the accounting standards. However, it must be borne in mind that almost anyone, if asked if they feel that regulation is too great a burden will probably respond 'yes'. This response should be seen in the context of the perception that the totality of regulation imposes too great a burden and that accounting standards constitute one piece in this jigsaw.

Big Six firms do not find compliance too great a burden, but acknowledged the heavy support of Technical Departments.

8. Do practitioners want exemption from accounting standards for small companies?

General practitioners ranked the removal of the audit requirement as the most favoured way in which the burden of financial reporting could be alleviated. The second method suggested was a reduction in the extent of disclosure required by the standards. 2% wanted complete exemption and 4% wanted to reduce the number of standards.

Practitioners felt that if they could spend less time complying with regulation (including the accounting standards), they could spend more time giving general financial and commercial advice to clients.

9. Which standards are not generally applicable to small companies?

43% of general practitioners said that all standards are applicable if material. Of the others, there was a tendency to opt for the earlier standards. This is consistent with the indication that respondents are not up-to-date with standards.

10. Should small companies produce an OFR and Cash Flow Statement?

There was no consensus on these issues. The Big Six practitioners were not in favour of either document for small companies.

11. Do practitioners have concerns about the possible relaxation of standards for small companies?

Some do and some do not. Some have no opinion one way or the other! There is little expectation of avoidance schemes on the same level as was seen on the introduction of the accounting regulation of the 1986 Companies Act.

SECTION 6: CONCLUSIONS

ISSUES FOR THE ASB

The ASB has asked for recommendations on ‘appropriate criteria for making exemptions for companies’ on grounds of size or relative lack of public interest. The indications from this study are that there is not a great deal of demand for small companies to be exempted from the measurement parts of the standards. However, general practitioners do feel over-burdened by regulation, and accounting standards form part of that regulatory burden. There is support for exempting small companies from much of the disclosure which is mandated by the standards. Standards which are highly unlikely to apply to small companies should be identified when the standard is issued. For example, all standards relating to group accounts and FRS4 on Financial Instruments could helpfully be denoted ‘not normally applicable to small companies.’ Only 6% of respondents favoured a special body of standards for small companies.

In terms of the companies which could be exempted on a standard by standard basis, respondents acknowledged that the Companies Act definition of ‘small company’ was an acceptable surrogate for ‘simple’ or ‘lacking public interest’. The distinction was drawn between small companies which are growing and those which are likely to remain small. Because the directors of the ‘small company, growing’ are likely to want to comply with the full rigour of accounting standards, it is suggested that:

* any exemption should be optional

* if exemption is selected in the case of one standard, it must be selected in the case of all available standards and

* there should be full disclosure of the fact that the financial statements have been prepared taking advantage of the permitted exemptions.

Small companies which are subsidiaries within a group structure for which group accounts are being prepared should not be exempted.

It is also suggested that the ASB consider the case of the small company in a start-up position, and consider the possibility of more radical exemptions from accounting standards for the first three years of operation.

The financial statements are used for decision-making, and this fact should not be ignored in devising a structure for exemptions for small companies.

ISSUES FOR THE PROFESSION IN IRELAND

Regulation is perceived to be a serious problem. Although the profession cannot move towards unilateral exemption from regulation for small companies, the members of the Institute of Chartered Accountants seek the support of the Institute in relieving the pressure by, for example:

- Supporting a removal of the compulsory audit for very small companies
- Supporting the reduction of disclosure in statutory financial statements
- Addressing the issue of the extent to which members are out-of-date with standards
- Lobbying Government to reduce the burden of Company Law and other statutory regulation on small companies.

The Institute should consider ways in which the on-going training of members following qualification should be enhanced. The possibility of compulsory CPD should be explored. Additionally, the benefits of making the fellowship more meaningful should be examined. Members dealing with the financial statements of small companies have no difficulty keeping up to date with accounting standards if they are working in large practices. The Institute could consider the type of training and re-training in regulation that large firms offer their staff and should explore the possibility of adapting that service and offering it to smaller practitioners.

ISSUES FOR PRACTITIONERS

General practitioners attached to smaller practices are currently not up-to-date with the body of accounting standards. They are considerably worried by this situation. The increase in the number of standards and in the volume thereof in a short period of time has made the situation difficult for them, particularly at a time when there is an increasing load of regulation in other areas with which a general practitioner must be familiar. It may be useful for them to restrict their examination of new standards to the ‘Summary’ section and to be familiar with this section of all standards, rather than trying to absorb all the pages of a limited number of standards. It may be possible for them to develop strategic alliances with other practices, so that expertise in areas such as taxation, insolvency regulation, auditing regulation, accounting regulation etc., can be developed in one practice which could be tapped into by the others when necessary .

Two thirds of respondents did not rank the provision of general financial and commercial advice to clients as an element of their fee income. At the same time respondents indicated that they saw this area as important and one to which they would wish to devote time if there was more time freed up by the relaxation of regulation. There appears to be more scope for practitioners to consider the possibility to passing over the routine accounts preparation to clients while they spend time devising and monitoring routine management information systems.

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