

**‘Regulatory change in financial reporting, auditing and corporate  
governance: impact on perceptions and behaviours.’**

**Tony Hines**

**In partial fulfilment of its requirements for the award of the degree of  
Doctor of Philosophy by Publication of the University of Portsmouth**

**May 2013**

## **Abstract**

The twelve refereed publications which form the basis of this PhD each deal with the impact of regulatory change on the perceptions and behaviours of key participants. The publications are drawn from three collaborative research projects exploring different aspects of financial reporting, auditing and corporate governance regulation.

The first project considered the way in which a new regulatory enforcement body, the Financial Reporting Review Panel interpreted its role and the impact of its actions on preparers and auditors of financial statements. The second project reviewed the developing perceptions of preparers, regulators and auditors following the European Commission announcement that IFRS would be adopted for the consolidated accounts of all EU listed companies with effect from 2005. The third project explores the impact of the re-regulation that followed the Enron and Worldcom scandals. In particular it examines auditor / client financial reporting and auditing interactions and presents evidence on the role taken by the newly empowered audit committee in that process. All of the publications present the results of empirical evidence. While a wide range of research methods are used, interviews and questionnaire surveys dominate. All of the publications are policy relevant and recommendations are made in each paper. Although all the research has been undertaken in a UK setting, the issues are explored within the framework of international literature, and most of the findings and recommendations are of international significance.

The first part of this commentary provides an overview of the contribution and quality of the work being submitted. The publications are then located within the broad sweep of regulatory theory to demonstrate the coherence of the submission. Each of the three projects is then considered in turn and the contribution to knowledge of each of the publications is then discussed in detail, and summarised in the conclusion.

## Contents

Abstract	i
Contents	ii
Declaration	iii
Acknowledgements	iv
<b>Chapter one:</b> Introduction and outline of research	1
<b>Chapter two:</b> Theories of regulation	9
<b>Chapter three:</b> Financial Reporting Review Panel	15
<b>Chapter four:</b> Introduction of IFRS	21
<b>Chapter five:</b> Impact of post-Enron regulation on auditor/ client	
Interactions	23
<b>Chapter six:</b> Conclusion	29
References	31
Appendix one – Publications submitted for the award	35
Appendix two – Personal contribution to papers submitted	36
Appendix three – Citations	40
Appendix four - Publications	

‘Whilst registered as a candidate for the above degree, I have not been registered for any other research award. The results and conclusions embodied in this thesis are the work of the named candidate and have not been submitted for any other academic award’.

Word count: 9,995.

## **Acknowledgements**

I would like to thank:

Richard Trafford for his advice and encouragement during the process of preparing this PhD submission;

My co-researchers for their contributions to the publications and for making the research process both fun and effective;

Helena, for her encouragement and patience over many years.

## **Chapter One**

### **Introduction and outline of research**

#### **The Basis of the Submission**

This thesis is based on publications which have explored the impact of regulatory change on accounting and auditing practices in the UK. The work has come out of three substantial projects:

1. Financial Reporting Review Panel (FRRP). Funded by the Institute of Chartered Accountants in England and Wales (ICAEW), the project explored how this enforcement body achieved its aims;
2. Introduction of International Financial Reporting Standards (IFRS). The European Commission (2000) proposed that all European Union (EU) companies listed on a regulated market should prepare their consolidated accounts using international accounting standards by 2005. The aim of the project was to study the developing perceptions of key parties during the time leading up to this substantial change;
3. Impact of post-Enron re-regulation on the nature and outcomes of interactions between auditors and directors of listed companies. This project was funded by the ICAEW.

The work submitted for this thesis consists of twelve publications: seven papers published in refereed academic journals, three refereed monographs / bulletins published by the ICAEW, one book chapter and a research book (see appendix one).

The papers selected for inclusion in this thesis: (1) contain primary research, (2) make a contribution to knowledge, theory and practice (3) make a contribution to future policy, and (4) are of international relevance.

Their primary contribution to knowledge was to provide:

1. The first published evidence on how the body responsible for enforcing accounting standards, the FRRP, interpreted its role and its broader impact on the regulatory framework. As well as reviewing its direct actions and how they portrayed themselves, the research examined the wider implications of its activities on auditor independence, professional

discipline, company share prices and perceptions of key parties. It provided evidence based recommendations on the FRRP's future role.

2. Evidence on how the attitudes of knowledgeable individuals on the EU introduction of IFRS developed over time and how they perceived the competition among private interests.

3. Evidence on the impact of the UK post-Enron regulatory reforms on the resolution of financial reporting issues and the extent to which audit committees and their chairs are involved in both these and audit related interactions. It also explored the joint provision of audit and non-audit services, perceptions of audit quality and the regulatory framework. The research is relevant to global regulators re-considering the future shape of the regulatory framework as a consequence of the recent financial crisis.

### **My Personal Research Background**

Although I am educated to masters level in economics, my accounting background is essentially professional. I am a qualified chartered accountant (FCA) and spent four years as an auditor for one of the larger accountancy firms and a further two years as a financial controller in a growing small and medium sized enterprise (SME). Since my appointment as a university lecturer my understanding of the subject has been broadened by attending conferences and reading contemporary academic literature. However, I remain convinced that accounting is essentially a practical subject and research questions should have real world relevance. My interest in how regulation changes impact on perceptions and behaviour flow out of these beliefs. My professional background has given me a firm grasp of the regulatory complexities that surround financial reporting and auditing and provided me with the credibility to discuss these issues with other professionals. I have been keen to focus on research approaches that capitalise on these comparative advantages, notably interviews. My approach to research is pragmatic, following a middle ground between positivist and social constructivist traditions, drawing on quantitative and qualitative techniques depending on the nature of the research question.

### **Publications Submitted**

The publications are presented in chronological order with a brief indication of their specific contribution:

(1) Brandt, R., Fearnley, S., **Hines, T.** and Beattie, V. (1997) “The Financial Reporting Review Panel: An analysis of its activities” in *Financial Reporting Today – Current and Emerging Issues 1998*. London: Accountancy Publications, 27-54.

**Originality / value** - *First systematic review of publicly available evidence on the activities of FRRP since its inception in 1991 contributing to an understanding how the FRRP interprets its role and the wider impact of its actions.*

(2) **Hines, T.**, McBride, K. and Page, M. (1999) “An investigation into the stock market reaction to press notices issued by the Financial Reporting Review Panel.” *Journal of Applied Accounting Research*, 5 (2), 54-83.

**Originality / value:** *First published share price event study on the impact of FRRP press notices on companies that had been the subject of an investigation.*

(3) Fearnley S., **Hines T.**, McBride K. and Brandt R. (2000) “Problems and politics of regulatory fragmentation: The case of the Financial Reporting Review Panel and the Institute of Chartered Accountants in England and Wales.” *Journal of Financial Regulation and Compliance*. 8 (1), 16-35.

**Originality / value:** *Identified inconsistencies in the way in which the Institute of Chartered Accountants in England and Wales dealt with disciplinary cases drawn to its attention by the FRRP and attempted to suggest why they may have occurred and made recommendations for the future.*

(4) Fearnley S., **Hines T.**, McBride K., and Brandt R. (2000) “A Peculiarly British Institution. An Analysis of the Contribution Made by the Financial Reporting Review Panel to Accounting Compliance in the UK.” London: Centre for Business Performance, Institute of Chartered Accountants in England and Wales.

**Originality / value:** *Provides a comprehensive and updated review of FRRP activities and their relevance to the regulatory framework. Provides evidence based recommendations on the FRRP’s future role.*

(5) **Hines T.**, McBride K. and Fearnley S. (2001) “We’re off to see the wizard: An evaluation of directors’ and auditors’ experiences with the Financial Reporting Review Panel.” *Accounting, Auditing and Accountability*, 14 (1), 53-84.

**Originality / value:** *Provides a richer understanding of the way in which the FRRP has operated, by comparing its stated aims, objectives and procedures with the perceptions of company directors and auditors with direct experience of it. It is concluded that the FRRP has engaged in ‘myth-making’.*

(6) Fearnley S., **Hines T.**, McBride K. and Brandt R. (2002) “The impact of the Financial Reporting Review Panel on aspects of the independence of auditors and their attitudes to compliance in the UK.” *British Accounting Review* (34), 109-139.

**Originality / value:** *Provides insights into how the FRRP achieves its objectives, especially the reaction of the auditor when a client’s company is being investigated by the FRRP and its impact on the audit firm and individual partners concerned.*

(7) Fearnley S., Gillies A., **Hines T.** and Willett C. (2007) “Bewildered but better informed: A qualitative, interview based study into the views of accountants and regulators prior to the introduction of IFRS in the UK.” Accepted for ICAEW website (<http://www.icaew.com/index.cfm?route=112935> ). Retrieved 13 June 2007.

**Originality / value:** *This study was one of the first to identify attitudes of key parties on critical issues related to a substantial regulatory change and how they had developed over time.*

(8) Fearnley S. and **Hines T.** (2007) “How IFRS has destabilised financial reporting for UK non-listed entities.” *Journal of Financial Regulation and Compliance*, 15 (4), 394-408.

**Originality / value:** *The paper identifies the changing views in the UK of the suitability of IFRS for non-listed entities, a group largely ignored in the big policy debates about IFRS.*

(9) Beattie V., Fearnley S. and **Hines T.** (2009) “The impact of changes to the non audit services regime on finance directors, audit committee chairs and audit partners of UK listed companies” London: Centre for Business Performance, ICAEW.

**Originality / value:** *This publication provides evidence on the impact of post-Enron regulatory reforms on the joint provision of audit and non-audit services to clients and made an important contribution to the debate about whether further restrictions were justified.*

(10) Beattie V., Fearnley S. and **Hines T.** (2011) “Reaching Key Financial Reporting Decisions: How Directors and Auditors Interact”, Chichester: Wiley.

**Originality / value:** *The analysis of the case studies and the cross case analysis in the book provides the only publicly available evidence of how financial reporting outcomes are achieved in the recent UK regulatory environment. A revised grounded theory interaction model is developed for the revised framework.*

(11) Beattie V., Fearnley S. and **Hines T.** (2012) “Do UK audit committees really engage with auditors on audit planning and performance?” *Accounting & Business Research*, 42 (3), 1-27.

**Originality / value:** *This is the first wide-ranging survey to be carried out in any jurisdiction that explores the relative engagement of the audit committee chair (ACC), audit committee (AC), audit partner (AP) and chief finance officer (CFO) in audit planning and in audit performance and finalisation issues. It provides evidence to policymakers who may be considering a review of the AC role.*

(12) Beattie V., Fearnley S. and **Hines T.** (2013) “Perceptions of actors affecting audit quality in the Post-Sox UK regulatory environment.” *Accounting & Business Research*, 43 (1), 56-81.

**Originality / value:** *The paper provides the only published evidence on the perceptions of three key preparer groups on how the post-Enron regulatory regime has impacted on audit quality. The findings also provide valuable evidence to inform the debate on future policy in relation to the role of audit and audit quality.*

All of the research is joint authored. With the sole exception of **publication 5**, where I am the lead named author, the authorship of the publications has been listed alphabetically, indicating that the contribution from the authors has been broadly equal. My contribution to the research in all cases was significant (see appendix 2).

## Quality of Research

**1. Citations.** It is generally accepted that the number of citations is an indicator of the quality and relevance of published research, but it is a measure that needs to be used with some caution. For recent publications, such as **10 to 12** above, there will have been little opportunity for citation. A full list of citations for each submitted publication is provided in Appendix three, but a summary is provided below:

**Table 1**

<b>Publication Reference</b>	<b>Date of Publication</b>	<b>Number of Citations (excluding self citations)</b>
Publication 1	1997	6
Publication 2	1999	8
Publication 3	2000	5
Publication 4	2000	10
Publication 5	2001	32
Publication 6	2002	14
Publication 7	2007	1
Publication 8	2007	6
Publication 9	2009	5
Publication 10	2011	3
Publication 11	2012	0
Publication 12	2012	2

Source: Google Scholar, 11 April 2013.

Furthermore, the source of the citations is also an indicator of the quality and policy relevance of the research. **Publications 9, 10 and 12** were all cited by House of Lords Select

Committee on Economic Affairs report on ‘Auditors: Market Concentration and their Role, Second Report of Session 2010-11’.

## **2. Research Assessment Exercise (RAE) Submissions**

This is another indicator of the quality of the research. Publications included as part of the University’s submission for a particular subject area have undergone a process of internal and external peer review.

For RAE 2001, **publications 1, 3 and 4** were included with another refereed journal article which has not been included in this thesis.

For the RAE 2008, **publications 5, 6 and 8** were included with another refereed journal article which has not been included in this thesis.

Publications **9, 10, 11 and 12** fall in the time period covered by the Research Excellence Framework (REF) 2013, for which preparations are ongoing.

## **3. Quality of Journals**

Journal rankings also provide a widely accepted indicator of the quality of a published paper. The most frequently quoted journal ranking system in the accounting field is ABS which ranks the relevant journals for the submitted publications as follows:

3\*- Accounting, Auditing and Accountability (**publication 5**)

British Accounting Review (**publication 6**)

Accounting & Business Research (**publications 11 and 12**)

2\*- Journal of Applied Accounting Research (**publication 2**)

1\*- Journal of Financial Regulation and Compliance (**publications 3 and 8**).

Three of the submitted works (**publications 4, 7 and 9**) have been published by the leading UK professional accountancy body, the ICAEW, having previously been subject to their review process. The book (**publication 10**) utilised an independent publisher but the ICAEW endorsed the work by permitting us to use their logo on the front cover.

#### **4. Funded Research**

All the publications with the exception of **7** and **8** are outputs from projects funded by the ICAEW. While research funding is not a guarantee that the final outputs from a project meet a quality threshold, it does indicate that the original research question was considered sufficiently relevant and interesting to justify support by the academic and professional referees.

#### **The rest of the commentary**

Chapter two locates the submitted publications within theories of regulation in order to demonstrate the coherence and contribution of the submission. Chapters three to five focus on the contribution that each of the three projects has made to knowledge. Finally chapter six concludes and provides a summary justification for the award.

## **Chapter two**

### **Theories of Regulation**

#### **Public interest case for regulation**

Baldwin and Cave (1999) identify a number of justifications for regulatory intervention into free markets, but all can be characterised as correcting some form of market failure. Economists view accounting information as a public good, whereby consumers who pay for goods cannot exclude others, free-riders, who have not borne part of the cost, also benefit (Musgrave, 1969). Regulation is needed to reduce the impact of information asymmetries. Adverse selection will occur as buyers will pay an average price for average quality and sellers of high quality products will withdraw (Akerlof, 1970).

Regulation also supports network effects, where a good or service becomes more valuable to one individual if others also acquire it. This is due to increasing returns for accumulated information, learning effects and economies of scale. Accounting information has these characteristics and attempts to introduce global harmonisation of financial reporting can be viewed from this perspective.

Therefore a major objective of accounting regulation is to guarantee fairness for investors and to protect them against fraud and exploitation. It is therefore very wide-ranging, covering not only what information should be disclosed, how frequently, how it should be presented, who should receive it, but also broader issues such as regulation over the role and competence of auditors.

#### **Alternative economic perspectives on regulation**

The arguments for regulation advanced above focus on protection of the public interest and assume that regulators have sufficient information and enforcement powers and are sufficiently benevolent to promote the public interest. This view has been criticised on a number of counts. There is no objective basis for identifying the public interest. The assumption that regulators act as neutral arbiters has also been questioned. Also it is not clear how interaction of participants in the political process will lead to maximisation of economic welfare (Posner, 1974). Private interest theories of regulation view it as the product of

relationships between different interest groups and the state and there is competition for power.

Stigler (1971) proposes that regulatory agencies are eventually captured by producers in the regulated industry because they are utility maximisers and to maintain political power they need votes and money, resources that can be provided by groups affected by regulatory decisions. Becker (1985) argues all actors are rational individual maximisers of their own welfare, but that some groups are better able to exert political pressure than others. Wealth transfers will take place from less efficient to more efficient groups. Indeed it is likely that the political process will primarily involve interest groups, as for individuals it will be too costly to form opinions and make representations on political issues. Depending on the efficiency of the political process, social welfare either increases or decreases. In some cases the economic damage from market failure may be less costly than regulation.

### **Broader theories of regulation**

Increasingly regulation theorists reject the approach of economists who assume regulation is shaped by individual rational actors. Baldwin, Cave and Lodge (2010) note that while theories of regulation were previously monopolised by economists with occasional contributions from the public law tradition, it has now become a multi-disciplinary field. They note that substantial contributions to regulatory debates are now made by political scientists, lawyers, sociologists, anthropologists and others. The move away from traditional 'command and control' forms of regulation to more fragmented and decentralised structures has highlighted the limitations of economic welfare theories. They also argue that new technologies, products, actors and changing consumer preferences are increasing the rate of new regulatory challenges.

Black (2002) argues that the communicative interactions that occur between all involved in the regulatory space are an important part of most regulatory systems. Discourse analysis suggests that interactions may be the basis of important functions such as co-ordination.

Ayres and Braithwaite (1992) have argued that regulators should be responsive to industry structures because different structures will be conducive to different degrees and forms of regulation. Efficient regulation needs to take account of different motivations of affected individuals and institutions, while the regulations themselves can impact on structures and

motivations. This means that the most appropriate form of regulation will depend on context, regulatory culture and history. Accounting academics (e.g. Puxty, Wilmott, Cooper and Lowe, 1987; Nobes and Parker, 2001) have noted that regulation has been shaped according to contrasting histories, cultures and paths of development.

**Publication 12** considers the impact of re-regulation following the Enron scandal on perceptions of audit quality in the UK among audit partners, listed company chief financial officers and audit committee chairs. Many of the regulatory changes were considered to have had only a slight or moderate impact on audit quality consistent with Hirshleifer's (2008) view that there is a psychological bias in favour of regulatory interventions.

**Publication 7** reviews the move to IFRS convergence in the light of interest group theory employing Hancher and Moran's (1989) concept of regulatory space. It also considers developing perceptions of the IFRS project in this context. **Publication 8** explores the impact of IFRS adoption on a group who demonstrably lost out in the fight for regulatory influence – UK non-listed entities. The two publications contribute to the development of a theoretical framework for an increasingly common form of regulation - that produced by a supra-national body outside of national jurisdiction but within a framework of globalisation.

### **Regulatory enforcement**

Economic theory would suggest that deterrence from violating regulations will only be achieved if the costs of those violations, multiplied by the probability of detection are equal to or greater than the benefits to be gained from the violations (Becker, 1968). Baldwin & Cave (1999) identify different enforcement strategies. The deterrence approach tends to be more direct and tougher with prosecutions used to deter future infractions. In contrast the compliance approach is more flexible, usually cheaper, less confrontational and encourages compliance. Baldwin, Cave and Lodge (2010) note that compliance theories have been further refined by researchers from other traditions. For example, Gunningham and Grabosky (1999) believe that a wider range of measures should be employed such as education and information based strategies in order to deliver the desired results in the least burdensome way.

These insights are employed in both **publication 1** and **publication 4** which review the actions of the FRRP in the first years following its establishment in 1991 with the aim of

drawing some initial conclusions regarding its effectiveness as an enforcement regulator, how it achieves its aims and whether revisions are needed to equip it for future challenges. The impact of a regulator does not solely depend on its direct actions but on its wider impact on society, issues also explored in **publications 1** and **4** above. **Publication 2** specifically considers whether publication of a company specific press notice by the FRRP was considered by the markets to contain new information and therefore impacted on that company's share price. **Publication 6** uses Kohlberg's (1969) stage sequence model of cognitive moral development to examine the impact of the FRRP on auditor independence and how it has changed attitudes to compliance.

Institutional theory rejects explanations that focus on the individual and argues that institutional structure and arrangements as well as social processes shape regulation and therefore need to be understood. Regulatory processes do not necessarily match the market failures they are supposed to remedy (Breyer, 1982). Organisations may be formed and operate in such a way as to appear to accommodate societal expectations without necessarily dealing rigorously with the problems (Fogarty, Zucca, Meonske and Kirch, 1997) and a failure to meet these expectations may threaten their survival (Fogarty, 1996). **Publication 5** explores the work of the Financial Reporting Review Panel from the perspective of institutional theory and suggests that it has engaged in 'myth making' to promote its perceived legitimacy (Ritti and Silver, 1986). The theoretical framework used in this paper has been subsequently applied to a wide variety of settings (see chapter 3).

Self regulation has been a significant feature of accounting regulation, particularly in the UK. Professional associations are employed by the state to monitor and enforce against their members. However, rules written by self-regulators may be self-serving and contravention may be difficult to demonstrate, so questions of openness, transparency and accountability of process arise. **Publication 3** reviewed how the ICAEW responded to cases referred to it as a consequence of FRRP cases.

The FRRP is a private sector body with power delegated from the state, a framework which is particularly European in nature. **Publications 1 to 6** therefore have made a strong contribution to the development of theories about shared regulatory authority.

## **Auditing regulation**

Auditing regulation must be considered in conjunction with accounting regulation as auditors bear prime responsibility for enforcing accounting rules. The prime purpose of external audit is to reduce agency costs by monitoring the financial statements issues by management to shareholders. The position of the auditor creates a new agency problem with threats of moral hazard and collusion. Therefore the enforcement of accounting rules by auditors has to be supervised and incentives have to be provided to support the independence of auditors.

**Publication 9** evaluates the extent to which post Enron regulatory changes have impacted on perceptions and behaviour regarding non-audit services (NAS) being supplied by the audit firm.

## **Corporate governance**

‘Corporate governance is the system by which companies are directed and controlled’ (Cadbury Report, 1992). The external auditor is a key corporate governance mechanism, but the audit committee has been given increased responsibilities with the post-Enron regulatory reforms. The audit committee has to oversee the auditors as well as having an oversight role over management. There has been relatively little direct research into how ACs interpret their role. **Publication 11** investigated the extent to which the AC, ACC and other key parties are aware of / involved in discussions about a range of audit related issues.

**Publication 10** further extends the work on interactions with an exploration of how the largely unobservable financial reporting and auditing process in UK listed companies actually works in the current UK regulatory environment. It examines how CFOs, ACCs and APs interact with each other to reach agreement on key financial reporting issues as the financial statements are finalised. It tests the grounded theory previously developed in a different setting (Beattie, Brandt and Fearnley, 2001) before the regulatory framework was substantially changed by global harmonisation initiatives and post-Enron re-regulation. It was clear that the influences on interaction outcomes which had previously been identified as crucial (e.g. quality of relationships, company circumstances) were now peripheral and therefore **publication 10** developed a new grounded theory to explain how financial reporting issues are resolved in the revised regulatory setting. The process of enforcing accounting and auditing standards had been strengthened and this was now the dominant influence shaping outcomes. The study demonstrates that regulation is complex and fragmented, particularly in

accounting where different regulators with different spheres of influence overlap with one another. It also illustrates the context specific dynamic nature of regulation (Ayres and Braithwaite, 1992).

### **Regulatory theory – my personal journey**

When I first started to research regulatory issues in accounting, my initial views and pre-conceptions were shaped by my university training as an economist. I viewed regulation as being primarily about costs and benefits, although I did accept that many of these could not in fact be measured with any degree of reliability. As I began to investigate real world regulatory structures related to accounting I quickly realised that they did not work in the way that economists usually assumed. Regulatory delegation and fragmentation was normal and frequently an automatic system of control was replaced by a discretionary regime. Also there were subtle and complex forces beyond costs and benefits (e.g. peer pressure, concern about personal reputation, perceptions) which influenced how regulators used their power and how regulatees responded. Such issues were beyond the scope of economic welfare theories which therefore only provided a partial explanation for observed phenomena. I realised it would be necessary to draw on insights from other disciplines such as sociology (e.g. Macdonald, 1995; Hancher and Moran, 1989) and psychology (e.g. Hirshleifer, 2008; Kohlberg, 1969) to explain what was actually happening, and these perspectives dominate the publications submitted. I now appreciate that no grand theory of regulation exists or could ever exist because regulation is context specific and dynamic, responding to changes in structure, regulations, expectations and motivations.

## Chapter three

### Financial Reporting Review Panel

The relevant papers for this chapter are **publications 1 to 6**.

#### Background to the project

In the mid 1980s a recession in the UK brought some well publicised corporate failures and it was argued that accounting standards provided too many options and were not being adequately enforced (Griffiths, 1986). Following a review by the profession it was proposed that the FRRP should be established to regulate compliance with accounting standards (CCAB, 1988) and it began operations in 1991.

The FRRP was unique among international regulators as it was a reactive body responding to complaints rather than monitoring accounts for compliance, thereby keeping operating costs to a minimum. It had the power to seek a court order requiring a company to remedy its accounts, however, its publicly stated preference was for voluntary agreement to be reached with directors (FRRP, 1993). The FRRP issued a press notice where a problem had been identified and remedial action had been agreed with the company, but provided no information on cases which were investigated and subsequently dropped. The FRRP had no direct powers over the auditors of the company involved but reported the case to the relevant audit firm's regulatory body who would then consider whether further action was justified.

By 1995 no research had been published on the activities of the FRRP and the ICAEW awarded a grant of £30,000 to R. Brandt, S. Fearnley and T. Hines to study 'The impact of the Financial Reporting Review Panel on preparers and users of financial statements'.

#### Research methods

A variety of research methods were used on the project, thereby facilitating a triangulation approach. A first stage was to analyse the secondary data (e.g. FRRP annual reports, relevant company accounts, press notices, press coverage, share price data) that was available in order to gain an understanding of the nature of its activities and external impact.

Questionnaire survey data was used in order to gauge the FRRP's impact. **Publication 1** includes the results of a survey of listed company finance directors, audit partners and

financial journalists on their perceptions of the impact of the FRRP on the integrity of the financial reporting process relative to other recent regulatory changes. **Publication 4** includes the results of a survey sent to the compliance partners in all UK audit firms with clients who fell within the FRRP's remit, exploring how the existence of the FRRP had influenced the audit firm's attitude to compliance.

The prime research method used in the project (for **publications 3 to 6**) was semi-structured interviews with those with direct experience of dealing with the FRRP in cases that had resulted in a press notice. The purpose of the interviews was to gain detailed insights into the interactions of directors and auditors with the FRRP. Eleven company interviewees and four audit firm partners agreed to be interviewed and all were recorded and then transcribed or extensive notes were taken. A coding scheme was established, themes were identified from the data and then tabulated summaries were used to identify patterns across cases (Glaser and Strauss, 1967). For **publication 4** additional interviews were undertaken with senior regulators and technical partners in audit firms.

### **Contribution to the literature**

**Publication 1** primarily draws on publicly available information about the FRRP to draw some preliminary conclusions about the way it operates and its wider impact. A number of the cases picked up by the FRRP would not have been considered material issues by auditors. All the outcomes were the result of voluntary agreements and it became clear that it was in nobody's interest to pursue a case to the courts since it would just prolong the period of uncertainty. The impact on auditors was more serious as they risked economic and reputation damage and possible disciplinary action from professional bodies. The FRRP's existence may have encouraged auditors to put pressure on clients not to breach regulations. The survey suggested that it had a positive impact on financial reporting quality but had cost very little.

Many of these themes were developed further in **publication 4** which had the overall objectives of evaluating the contribution that the FRRP had made to the effectiveness of the regulatory framework for financial reporting in the UK and to consider how well placed it was to adapt to future challenges.

Concerns emerged from interviewees about the lack of substance in some of the cases that the FRRP dealt with and there was evidence that the FRRP was inclined towards compliance breaches rather than issues of substance involving judgement. Also the FRRP's view on materiality was different from that applied by practitioners. Interview evidence confirmed that auditors had good reasons to avoid an FRRP case and the survey evidence indicated that its existence had changed attitudes to compliance and that the larger audit firms used its existence as a negotiating tool with clients. Drawing on interview and questionnaire evidence there was only moderate support for a change in the FRRP's terms of reference. However, the monograph argued that the only way to end the criticisms that the FRRP deals with trivia is to move to pro-active monitoring of accounts.

**Publication 5** uses institutional theory to compare the stated aims, objectives and operating procedures of the FRRP with the practical experience of those who have been involved with it and evidence of the wider impact of their work. The aim was to provide a richer understanding of the way in which a new institution achieves its objectives and to determine the extent to which it has engaged in 'myth –making' to establish and maintain its legitimacy.

Institutional theorists observe that organisations need to respond to social expectations, that they exist in a social environment with prevalent norms. Failure to respond may threaten their survival (e.g. Fogarty, 1996). Ritti and Silver (1986) argue that to establish legitimacy in the early stages of development, an agency will engage in 'myth making', likely to dramatise its role. Even when established agencies need to maintain legitimacy. It has been suggested that the internal workings of an organisation may be loosely coupled with its external image (Meyer and Rowan, 1977). The FRRP has few measurable outputs which can be used as a basis for evaluating success, but gives an account of its activities every year in the annual report. Systematic text analysis was carried out on the annual reports to identify sentences in which the FRRP (or their parent body, the Financial Reporting Council (FRC)) reflected on their operating procedures, achievements or their place in the broader UK regulatory framework. These were the source of potential myths which were then evaluated against interview evidence from those with direct experience of the FRRP.

The paper concludes that there was some evidence that the FRRP had engaged in 'myth making' in order to gain social legitimacy. For example, it had a considerable amount of discretion which was exercised in an unpredictable way, when the FRRP stated that decisions

are driven by technical and rational considerations. There were some suggestions that easier, less material cases were taken up to demonstrate a level of activity, but this was not consistent with its portrayal as a crusading agency. Interviewees were taken aback by the formality of the meetings and felt under-prepared, when the FRRP described its processes as open, fair and informal. Given that the FRRP was unique among global enforcement agencies in being a private sector regulator, purely reactive and unable to use stock exchange based sanctions, myths become important in maintaining credibility.

An indication of the contribution that this project made to knowledge and the academic development of the discipline can be gained by a review of citations for **publication 5** (the publication with the greatest number of citations among those submitted). As Dillard, Rigsby and Goodman (2004) note the theoretical perspective used in the paper, institutional theory, has subsequently been employed in a number of accounting settings which share some of the FRRP's characteristics (e.g. they need to meet social expectations in order to maintain legitimacy). The paper has been cited by researchers exploring the Australian National Audit Office (ANAO) (Wade, 2008; Funnell and Wade, 2012), the corporation tax planning function in US multinational companies (Mulligan, 2008), non-governmental organisations in Tanzania non-governmental organisations in Tanzania (Goddard and Assad, 2006), a religious / charitable organisation in Australia (Irvine, 2003a), a nation state facing the decision to adopt IFRS (Irvine, 2008) and the adoption of double entry bookkeeping at the Royal Treasury, Portugal in the eighteenth century (Gomes, 2007).

Other citations are focussed on the research methods employed in **publication 5**. Malik, Liu and Kyriacou (2011) and Barone, Ranamagar and Solomon (2011) referred to the interview based research methods in **publication 5** as a justification for their own approach, with Herrbach (2005) making specific reference to the number of interviews undertaken. Samkin and Schneider (2008) cite the paper as an example of textual analysis software being employed. Irvine (2003b) refers to it when exploring the issue of confidentiality in an organisational research project noting that in **publication 5** some potential interviewees withdrew after initially agreeing to take part. Gurd (2008) includes the paper as one of 23 accounting publications to use grounded theory in his analysis of the extent to which researchers use a consistent approach.

Other citations relate specifically to the findings of **publication 5** on accounting standard enforcement. Peasnell, Pope and Young (2001) analyse the characteristics of firms subject to adverse rulings by the FRRP, while acknowledging the contribution of **publication 5** in studying the FRRP's processes. It has also had an impact on comparative international studies on enforcement, for example the UK and Australia (Brown and Tarca, 2007), Spain and Portugal (Canibano and Alberto, 2008) and Spain and the UK (Canibano and Heras, 2007), while Brown and Tarca (2005) cite the publication in their evaluation of existing enforcement methods just prior to IFRS. The finding that the FRRP's approach tends to be compliance based is used by Evans (2003) to argue that this will be one of the factors which limits the practical significance of the true and fair override. Livne and McNichols (2009) use the same finding to support the argument that managers would calculate the costs and benefits of invoking the true and fair override and that given the FRRP's approach to compliance, a departure from accounting standards might be expected to produce a regulatory intervention.

Other papers focus on the wider effects of FRRP actions. **Publication 2** investigates whether press notices issued by the FRRP had an adverse impact on the share prices of the company concerned. This was the first published study to review the FRRP's pronouncements. A share price event study was carried out on 33 companies which had been the subject of FRRP press notices up to December 1996. No evidence was found of abnormal adverse price reactions following the publication of the press notice. This suggested that either the contents were already known by the market or it did not consider the new information sufficiently significant to cause a reappraisal of share prices.

**Publication 6** explores the question of why auditors believe that independence has been enhanced and attitudes to compliance changed as a result of FRRP activities. While earlier papers (e.g. **publication 4**) were reliant on broadly based evidence, this paper used evidence from individuals with direct experience of the FRRP who are better placed to explain why its existence may have changed beliefs.

Independent behaviour may be determined by decisions made by individual partners in dealing with clients and there is evidence that their individual level of cognitive development is a key influence on behaviour. The paper refers to Kohlberg's stage sequence model (Kohlberg, 1969) which identifies three different levels of cognitive moral development –

pre-conventional (will follow independence standards when in best interest), conventional (behaviour consistent with group norms) and post-conventions (will comply if consistent with internal beliefs). This model has previously been applied in an audit setting by Ponemon and Gabhart (1990) and is utilised in this paper.

The consequences of an FRRP inquiry for the audit firm were likely to depend on the nature of the advice given to the client in advance of the FRRP. Directors expected their auditors to be technically competent, keeping them clear of regulatory interventions, and when this was brought into question, trust could be eroded. Audit firms tended to give additional support to clients involved in FRRP inquiries and such costs were often not recoverable. Other costs to an audit partner were personal embarrassment, increased risk of loss of client, possible career damage and the risk of an ICAEW disciplinary inquiry. However, the FRRP was found to provide auditors with an additional negotiating tool in dealing with directors, thus making it easier for directors at the conventional and post conventional levels of ethical cognition to prevent non-compliance. It also provided incentives for auditors at pre-conventional levels of ethical cognition to be independent, as there was an increased risk of being caught.

**Publication 3** reviews one aspect of the disincentives for auditors identified in **publication 6** – investigation by the professional body responsible for regulating the audit firm. Where the FRRP identified a defect in a set of accounts, the case was drawn to the attention of the relevant professional body, the ICAEW. Although it had regularly expressed support for the work of the FRRP, no disciplinary action against an auditor was taken by the ICAEW for the first seven years of its existence. The objective of the paper was to explain the ICAEW's profile for disciplinary actions arising from FRRP cases drawing on publicly available data and interview evidence drawing on the professions literature.

The anomalies arose because state delegated audit regulations were grafted onto the existing ICAEW disciplinary regime. It appears that the ICAEW treated the FRRP cases as professional misconduct associated with a higher burden of proof, thereby protecting its members' interests. Following discussions with the relevant government department a new approach was adopted in 1999 and disciplinary action was begun in three cases, completely inconsistent with previous decisions. The paper concludes that regulatory fragmentation is the cause of the problem and that a more coherent regime was required.

## Chapter four

### Introduction of International Financial Reporting Standards (IFRS)

The relevant papers for this chapter are **publications 7 to 8**.

#### Background to the project

In June 2002 the European Union Council of Ministers approved a regulation (EU, 2002) requiring that all EU companies listed on a regulated stock exchange should prepare their consolidated accounts in accordance with international accounting standards (subsequently IFRS) by 2005. This was a major change to the UK accounting regime. The aim of the study was to explore how a group of knowledgeable UK regulators, audit partners and company directors viewed this change and how those views evolved over time.

#### Research methods

The prime research method used in the project (for **publications 7 and 8**) was qualitative analysis of data from 23 semi-structured interviews conducted in two rounds. The first took place between December 2001 and March 2002. The second took place between December 2003 and February 2004. For **publication 8** this was augmented by an analysis of publicly available data (i.e. responses to the Accounting Standards Board's (ASB's) consultations on the future of financial reporting for non-listed entities).

#### Contribution to the literature

Drawing on interview evidence, **publication 7** reviews the move to convergence in the light of interest group theory which assumes that all parties, including regulators, act in a self interested way. Hancher and Moran (1989) term a particular regulatory process as a defined space in which occupants or leading players move and interact.

While there were plenty of anticipated benefits of convergence, this was tempered by regret at the loss of UK GAAP, believed to be of a high standard. There was growing concern about the impact of the International Accounting Standards Board's (IASB's) convergence project with US GAAP on IFRS. Also a belief that smaller listed companies might not have the resources to manage the changeover effectively and that there may be an increased risk of misleading statements during the transition period. Interpretation and enforcement were

other aspects of the transition which interviewees considered problematic and likely to read to EU wide differences, although there was agreement that enforcement should operate at the national level.

The regulatory space with respect to global harmonisation was very crowded with the IASB, Securities and Exchange Commission (SEC) and the Big Four (also major change agents through their technical expertise and global reach) seen as the most influential. Inevitably other players were likely to suffer a loss of influence.

**Publication 8** specifically focuses on the development of attitudes towards financial reporting solutions for entities not covered by the Regulation (EU, 2002). Although this group of entities was initially given the choice of remaining on UK GAAP or moving to IFRS, the ASB's initial view was that in the medium term there was no case for two sets of standards (ASB, 2004) and they therefore proposed to converge UK GAAP with IFRS. Following criticism this strategy was subsequently revised.

The increasing perception from interview evidence and responses to the ASB's revised strategy was that IFRS was overly complex and was complicating the search for an appropriate form of financial reporting for entities not covered by the requirement to produce IFRS based accounts. Arguably the real needs of SMEs were ignored in the debates dominated by the requirements of global players and progress has been painfully slow. The IASB's reporting model is based on the concept of decision usefulness. Arguably this is inappropriate for small companies who lack accounting expertise, may be owner managed and whose accounts are read by few (Carsberg, Page, Sindall and Waring, 1985; Keasey and Short, 1990). The implications were that further, possibly more radical, policy options needed to be considered for smaller companies to ensure that the costs of financial reporting remain in proportion to the benefits.

## Chapter five

### Impact of post- Enron re-regulation

The relevant papers for this chapter are **publications 9 to 12**.

#### Background to the project

The first objective of the project was to identify the key financial reporting issues which were discussed and negotiated between APs, CFOs and ACCs, and also to establish how they reached agreement on the final outcome. The second objective was to investigate the nature of the issues that influenced the relationship between the three parties and, in particular, to establish whether auditors were able to resist pressure from the directors. No empirical studies had been carried out to answer these questions in the regulatory environment created by the post-Enron regulatory reforms and increased international harmonisation. The third objective was to investigate whether, as a result of the changes, audit quality had improved.

The project was re-visiting a previous study undertaken by Beattie, Fearnley and Brandt (2001) conducted ten years earlier in a rather different regulatory environment. Arguably the most significant subsequent regulatory change was in corporate governance with additional responsibility given to ACs following the report from the Smith Committee (2003). They now were expected to take responsibility for recommending the appointment or re-appointment of auditors to the board and the shareholders, approval of non-audit services and overseeing auditor independence and monitoring the integrity of the financial statements. Auditors were expected to engage with the audit committee (APB, 2004). However the previous ten years had brought in many other changes to the UK which might be expected to impact on the issues under review. On the accounting side IFRS was introduced for the group accounts of EU listed companies for December 2005 year ends onwards and the FRRP's remit changed from being purely reactive to complaints to proactively reviewing public interest company accounts. In audit, responsibility for supervising the setting of auditing and ethical standards was transferred to the FRC. International Standards of Auditing (ISAs) amended for use in the UK were adopted in 2005 and ethical standards were also revised particularly with respect to non-audit services and audit partner rotation. The Audit Inspection Unit (AIU) (under the aegis of the FRC) was set up to inspect public interest audits and issue public reports on their findings.

The results of the project are particularly relevant to policymakers who are once again reviewing the regulatory framework in the wake of the 2008 global financial crisis. In the aftermath of this, the nature of financial reporting and the role of the auditor had been questioned (e.g. EC, 2010). There have been proposals to further enhance the role of the audit committee (FRC, 2011) yet little is known about their existing level of engagement.

The Chartered Accountants' Trustees supported this study with a research grant of £154,839 in 2007.

### **Research methods**

A two stage research method was employed. First a questionnaire was sent to 500 CFOs and 500 ACCs of UK listed companies, along with 500 APs from firms which audit listed companies. Respondents were asked about financial reporting and auditing issues which had been discussed or negotiated in the course of finalising the last set of accounts. The questionnaire also sought information on the activities of the AC and elicited beliefs on factors which undermine or enhance audit quality and the integrity of financial reporting.

The second stage was to target nine companies and to interview both the CFO and the ACC, and to seek permission from the directors to interview the AP. The interviews explored the interviewees' experiences of interactions with the other key parties, as well as their perceptions of how changes in the regulatory framework had impacted on their role. The interviews were all recorded and transcribed. The grounded theory methodology of Strauss and Corbin (1998) was employed whereby theory was built inductively from the data. Key features in each text were coded, these were grouped into concepts that apply across cases. Similar concepts were further grouped into categories and the relationships between them were the basis of the final theory.

### **Contribution to the literature**

**Publication 9** is a response to a public statement from the House of Commons Treasury Committee which in 2009 expressed the view that '*investor confidence and trust in audit would be enhanced by a prohibition on audit firms conducting non-audit work for the same company*' (House of Commons Treasury Committee, 2009). Drawing on results from the experiential survey and other publicly available data, the publication was able to contribute to

the debate. It evaluates the extent to which post Enron regulatory changes have impacted on perceptions and behaviour regarding non-audit services (NAS) being supplied by the audit firm.

The briefing draws on publicly available data and the questionnaire responses to provide evidence that the regulatory changes along with pressure from activist investors, have brought about significant reductions in the level of NAS supplied by audit firms. The majority of ACs appear to be involved with the issue and 53% of respondents report that regulatory change has discouraged or prevented purchase of NAS. There is evidence that the changes have also brought some unintended negative consequences. The briefing concludes that the provision of services which most concern investors have already been restricted, and given the risk of further unintended consequences there appears to be little justification for further restrictions.

The major part of **publication 10** consists of nine company case studies where the researchers conducted face to face interviews with CFOs, ACCs and APs of companies with different attributes including size, industry sector and ownership structure. The interviews explored the financial reporting and auditing interactions which had taken place and how each party perceived his or her role in the resolution of the issue.

Beattie, Fearnley and Brandt (2001) conducted matched interviews with CFOs and APs in six major listed UK companies. From the 24 distinct interaction issues identified, a grounded theory model was developed of the negotiation process and factors that influence the nature of the outcome of interactions. The model identified layers of influences covering context specific to that interaction (e.g. nature of the issue, key third parties involved), then general company / audit firm context (quality of primary relationship, company circumstances, firm circumstances and company buyer type), next the external national climate and finally the global regulatory climate. This study did not explore the role of audit committees and field work was undertaken in a very different regulatory environment.

This study tested the grounded theory generated by Beattie, Fearnley and Brandt (2001) and the cross-case analysis demonstrated that it was no longer a valid framework to explain interactions in the new regulatory setting and that it would be necessary to develop a revised grounded theory interaction model. The strongest outcome determinant is now the regulatory

regime and particularly the national regime for enforcing accounting (FRRP) and auditing (AIU) standards which had been strengthened post-Enron. The revised corporate governance codes and ethical standards were also strong influences. The contextual factors which had been significant in shaping interactions in Beattie, Fearnley and Brandt (2001) had become of peripheral importance.

The book provides evidence that ACCs, given additional responsibilities under revised corporate governance codes, are fully engaged with the financial reporting process. The ACC personally takes on much of the monitoring role formally assigned to the audit committee, while the audit committee most often fulfils a ceremonial role. The predominant dynamic in financial reporting interactions has shifted to a triad relationship where both the CFO and AP are accountable to the ACC, who manages the AC. Consequently, interactions now tend to be characterised by a shared objective of complying with the rules, problem-solving behaviour and rarely by disagreement and confrontation.

The outcome of all the compliance issues was classified as compliant and all the judgment outcomes were classified as acceptable. This is in sharp contrast with the interactions presented in Beattie, Fearnley and Brandt (2001) where four of the 22 outcomes were considered poor or examples of creative compliance. The existence of accounting standards which are more rules-based often made agreement on compliance issues easier. Some concerns were expressed regarding the effect of recent regulatory innovations and given an effective enforcement regime, it is the quality of the standards and regulations being enforced that will determine the quality of the final outcomes.

**Publication 11** adds to the evidence on audit committee engagement as, using survey data, it investigates the involvement of the AC, the ACC, AP and the CFO in relation to a range of audit-related matters in UK listed companies in the 2007 regulatory environment. In particular the level of engagement of AC and ACC were explored with respect to AC responsibilities identified in the Combined Code, along with the level of awareness and involvement of the AC and ACC with a range of audit related issues. The research used the experiential questionnaire survey which was the first wide-ranging survey to be carried out in any jurisdiction that explores the levels of engagement of the ACC, AC, AP and CFO in audit related issues.

The level of AC and ACC engagement in seven AC responsibilities set by the Combined Code is high and the findings indicated that ACCs were fully aware of interactions taking place. However, only 50% of sixteen audit planning, performance and finalisation matters were routinely discussed. The ACC acted without the full AC in 11% of discussions, while 25% discussions involved only the CFO and AP without the ACC or the AC. ACC involvement was affected by the nature of the issue. The extent of discussion and the degree of AC and ACC involvement was influenced by background characteristics – company size, audit firm size and ACC experience and qualifications.

This evidence of less than full AC engagement with audit related issues suggests that regulators may risk creating an AC expectations gap if AC duties under the extant model are significantly increased without structural change.

**Publication 12** uses the survey data to identify the extent to which key preparer groups believe that key features of the regulatory framework (including recent reforms) enhance or undermine audit quality and investigates the congruence of these group's views. It also identifies the changes considered most likely to improve audit quality.

The majority of factors were rated as slightly or moderately enhancing audit quality. All groups rate various audit committee interactions with auditors among the factors most enhancing audit quality. However, ISAs and the audit inspection regime were viewed as less effective. There are significant differences between groups for the majority of factors.

Respondents commented that aspects of the changed regime were largely process and compliance driven, with high costs for limited benefits, a finding consistent with regulatory over-reaction. Overall the lack of impact of many of the regulatory changes, along with the concern from respondents that many aspects of the changed regime were process or compliance driven, is consistent with Hirshleifer's (2008) psychological bias theory of regulation which suggests that there is over confidence that a useful regulatory intervention exists.

In the wake of the financial crisis there has been a fresh debate about the appropriate form of future regulation over financial reporting and audit. The evidence produced by this research has informed and influenced this public policy debate, particularly with respect to the role of

auditors, audit committees and audit committee chairs. Furthermore aspects of the research have influenced practices in the audit industry at global level. Specifically:

1. The national technical partner from one of the Big Four global audit firms provided a statement which argued that this research had more impact upon their auditing processes than any other research in almost twenty years. Specifically the results of the research had helped him appreciate the extent to which the latter stages of a statutory audit focused on disclosures in the annual report rather than key numbers in the primary financial statements and therefore he initiated changes in the firm's audit procedures.
2. The research team was invited to present findings at the Audit Quality Forum, (convened by ICAEW's Audit and Assurance Faculty) on two occasions. The first, to provide an overview of the survey results included in **publication 10**, the second focussed on the findings of **publication 9**.
3. I was invited to join the Institute of Chartered Accountants of Scotland's (ICAS) working party on non-audit services which had been set up following the second Audit Quality Forum presentation.
4. The research team was invited by the Centre for Business Performance at the Institute of Chartered Accountants in England and Wales (ICAEW) to deliver the annual P D Leake Lecture at Chartered Accountants' Hall in London to a professional / academic audience. The content formed the basis of **publication 11**.
5. The research team provided written evidence on the role of audit in capital markets, and the adverse impact of IFRS to the House of Lords Select Committee on Economic Affairs drawing on survey data. Citations appear in the final report (House of Lords, 2011, paras 20, 113 and 139).

The above have formed the basis of an impact case which is currently under consideration for inclusion in Portsmouth Business School's 2013 REF submission.

Further papers from this project are still in the course of development. For example, one paper explores the involvement of ACs and ACCs on financial reporting interactions using survey data. Another paper will focus on perceptions of UK regulatory enforcement.

## Conclusion

This commentary articulates a series of refereed papers within the broad framework of regulation, focussing on three distinct initiatives – the establishment of the Financial Review Panel, the adoption of IFRS and the impact of post- Enron regulation on behaviour and perceptions. A total of twelve publications have been submitted, all published in refereed journals or other high quality outputs. Most of the publications have provided the first evidence on a particular regulatory initiative and all have made a significant contribution to theory and / or knowledge.

**Publications 1 to 6** together provide a coherent view on how a newly established private sector body with limited powers delegated from government and a limited budget achieves its aim to be an effective enforcement agency. The papers cover its impact on auditors, share price reaction, perceptions of those with and without direct experience of it and the response of professional bodies responsible for regulating auditors. **Publication 5** used institutional theory as a lens through which to explore whether the FRRP engaged in ‘myth-making’ in order to establish and maintain legitimacy. The paper has been widely cited (see table 1) and the theory employed in many other settings where there is a need to meet social expectations in order to maintain legitimacy. It has also had an impact on other international studies on enforcement (e.g. Brown and Tarca, 2007) and contributed to the debate about the status of the true and fair override (e.g. Evans, 2003).

The IFRS publications identified at a very early stage some of the continuing problems associated with IFRS adoption. They also employ the concept of regulatory space (Hancher and Moran, 1989) to develop a theoretical framework for ‘global’ regulation generated by a supra-national body outside of national jurisdictions.

**Publications 9 to 12** have highlighted how a change in regulatory framework can transform behaviours and perceptions of key players. They provide evidence on the role taken by the audit committee as a whole and the audit committee chair as an individual within the new framework. **Publication 10** develops a new grounded theory to explain how financial reporting issues are resolved in the revised UK regulatory environment when it becomes clear that the previously developed theory (Beattie, Fearnley and Brandt, 2001) is no longer valid. **Publication 12** draws on Hirscheifer’s (2008) psychological bias theory to explain why most

of the post-Enron regulatory initiatives are perceived by key groups as only marginally enhancing audit quality.

The work undertaken has been policy relevant and has impacted on practice. Most of the proposals on the FRRP's future role included in **publication 4** were subsequently implemented. **Publications 9 to 12** have been presented to professional audiences, changed audit procedures in a Big Four firm and formed the basis of written evidence to, and been cited by, the House of Lords Select Committee on Economic Affairs.

All of the submitted publications have been jointly authored. Key ideas concerning the development of the projects were usually a matter of discussion between all research team members. My specific contribution to each paper has varied (see appendix 2) but in broad terms I have, provided the research team with financial reporting expertise both pre and post IFRS, undertaken some of the literature reviews, jointly conducted most of the interviews and collected other publicly available data, been primarily responsible for most of the qualitative analysis and had prime responsibility of developing and writing the first draft of some of the papers and sections of the longer publications.

The regulatory framework for accounting and auditing is constantly evolving in response to new challenges and creating new research opportunities. I intend to continue to make a significant contribution to future debates on regulation.

## References

- ASB (2004), *'UK Accounting Standards: A Strategy for Convergence with IFRS'*, London: Accounting Standards Board.
- APB (2004), *'ISA (UK and Ireland) 260. Communication of Audit Matters with those Charged with Governance'*, London: Auditing Practices Board.
- Akerlof, G. A. (1970), 'The market for "lemons": quality uncertainty and the market mechanism', *The Quarterly Journal of Economics*, 84 (3), 488-500.
- Ayres, I. and Braithwaite, J. (1992), *'Responsive Regulation: Transcending the Deregulation Debate'*, Oxford: Oxford University Press.
- Baldwin, R. and Cave, M. (1999), *'Understanding Regulation: Theory, Strategy and Practice'*, Oxford: Oxford University Press.
- Baldwin, R., Cave, M. and Lodge, M. (2010), *'The Oxford Handbook of Regulation'*, Oxford: Oxford University Press.
- Black, J. (2002), 'Regulatory conversations', *'Journal of Law and Society'*, 29, 163-196.
- Funnell, W. and Wade, M. (2012), 'Negotiating the credibility of performance auditing', *Critical Perspectives of Accounting*, 23, 434-450.
- Barone, E., Ranamagar, N. and Solomon, J.F. 'A Habermasian model of stakeholder (non) engagement and corporate (ir) responsibility accounting,' *Accounting Forum*, <http://dx.doi/10.1016/j.accfor.2012.12.001>.
- Beattie, V. and Fearnley, S. (2002), *'Auditor Independence and Non-audit service: a literature review'*, London: The Institute of Chartered Accountants in England and Wales.
- Beattie, V. Fearnley, S. and Brandt, R. (2001), *'Behind Closed Doors: What Company Audit is Really About'*, Basingstoke: Palgrave.
- Becker, G. S. (1968), 'Crime and punishment: an economic approach', *Journal of Political Economy*, 76, 169.
- Becker, G. S. (1985), 'Public policies, pressure groups, and deadweight costs', *Journal of Public Economics*, 28, 329-347.
- Breyer, S. (1982), *'Regulation and its Reform'*, Harvard: Harvard University Press.
- Brown, P. and Tarca, A. (2005), 'A commentary of issues relating to the enforcement of International Financial Reporting Standard in the EU', *European Accounting Review*, 14 (1), 181-212.
- Brown, P. and Tarca, A. (2005), 'Achieving high quality, comparable financial reporting: A review of independent enforcement bodies in Australia and the United Kingdom', *Abacus*, 43 (4), 438-473.
- Cadbury Report (1992), *'Report of the Committee on the Financial Aspects of Corporate Governance'*, London: Gee and Co.

- Canibano, L. and Alberto, F. (2008), 'El control institucional de la informacion financiera: aplicacion de un estudio DELPHI', *Revista Espanola de Financiacion y Contabilidad*, 37 (140), 795-829.
- Canibano, L. and Heras, E. (2007), '*Enforcement in the European Union- A Comparative Study: Spain and the UK*', Autonomous University of Madrid Working Paper.
- Carsberg, B. V., Page, M. J., Sindall, A. J. and Waring, I. D. (1985), '*Small Company Financial Reporting*', London: Prentice-Hall International.
- Combined Committee of Accounting Bodies (CCAB) (1988), '*The Making of Accounting Standards (The Dearing Report)*', London: CCAB.
- Dillard, J. F., Rigsby, J. T. and Goodman, C. (2004), 'The making and remaking of organization context: Duality and the institutionalization process', *Accounting, Auditing and Accountability Journal*, 17 (4), 506-542.
- Donabedian, B. (1993), 'Accounting self-regulation and the enforcement of professional codes', *Journal of Accounting and Public Policy*, 12, 87-112.
- European Commission (EC) (2010), '*Audit Policy: Lessons from the Crisis*,' Brussels: European Commission.
- EU (2002), '*Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards*', Brussels: European Commission.
- Evans, L. (2003), 'The true and fair view and the 'fair presentation' override of IAS 1', *Accounting and Business Research*, 33 (4), 311-325.
- Financial Reporting Council (FRC) (2011), '*Effective Company Stewardship: Enhancing Corporate Reporting and Audit*', London: FRC.
- Financial Reporting Review Panel (FRRP) (1993), '*Procedures for Handling Individual Cases*', London: Financial Reporting Council.
- Fogarty, T. J. (1996), 'The imagery and reality of peer review in the US: insights from institutional theory', *Accounting, Organizations and Society*, 21 (2/3), 243-267.
- Fogarty, T. J., Zucca, L., Meonske, N. and Kirch, D. (1997), 'Proactive practice review: a critical case of accounting regulation that never was', *Critical Perspectives on Accounting*, 8, 162-187.
- Funnell, W. and Wade, M. (2012), 'Negotiating the credibility of performance auditing', *Critical Perspectives on Accounting*, 23, 434-450.
- Glaser, B. G. and Strauss. A. L. (1967), '*The Discovery of Grounded Theory: Strategies for Qualitative Research*', Chicago: Aldine Publishing Co.
- Goddard, A. and Assad, M.J. (2006), 'Accounting and navigating legitimacy in Tanzanian NGOs', *Accounting, Auditing & Accountability Journal*, 19 (3), 377-404.

- Gomes, D. (2007), '*Accounting Change in Central Government: the Institutionalization of Double Entry Bookkeeping at the Portuguese Royal Treasury (1761-1777)*', Universidade do Minho working paper.
- Griffiths, I. (1986), '*Creative Accounting: How to Make Your Profits What You Want them to Be*', London: Urwin.
- Gunningham, N. and Grabosky, P. (1999), '*Smart Regulation: Designing Environmental Policy*', Oxford: Oxford University Press.
- Gurd, B. (2008), 'Remaining consistent with method? An analysis of grounded theory research in accounting', *Qualitative Research in Accounting and Management*, 5 (2), 122-138.
- Hancher, L. and Moran, M. (1989), 'Organising regulatory space' in Hancher, L. and Moran, M. (eds) *Capitalism, Culture and Regulation*, Oxford: Clarendon Press.
- Herrbach, O. (2005), 'The art of compromise? The individual and organisational legitimacy of "irregular auditing"', *Accounting, Auditing and Accountability Journal*, 18 (3), 390-409.
- Hirshleifer, D. (2008), 'Psychological bias as a driver of financial regulation', *European Financial Management*, 14 (5), 845-874.
- House of Commons Treasury Committee (2009), '*Banking Crisis: Reforming Corporate Governance and Pay in the City*', Ninth report of the session 2008/9 HC 519, 15 May, London: The Stationery Office.
- House of Lords Select Committee on Economic Affairs (2011), '*Auditors: Market Concentration and their Role*', Second report of the session 2010/11 HC 119, 30 March, London: The Stationery Office.
- Irvine, H. (2003a), '*Taking a Closer Look: the why and how of New Accounting Practices in an Australian Religious / Charitable Organisation*', <http://ro.uow.edu.au>.
- Irvine, H. (2003b), 'Trust me! A personal account of confidentiality issues in an organisational research project', *Accounting Forum*, 27, 111-131.
- Irvine, H. (2008), 'The global institutionalization of financial reporting: the case of the United Arab Emirates', *Accounting Forum*, 32 (2), 125-142.
- Keasey, K. and Short, H. (1990), 'The accounting burdens facing small firms: an empirical research note', *Accounting & Business Research*, 20, 307-313.
- Kohlberg, L. (1969), 'Stages and sequences: the cognitive developmental approach to socialisation', in D. Goslin (ed.), *Handbook of Socialisation Theory and Research*, Chicago: Rand McNally.
- Livne, G. and McNichols, M. (2009), 'An empirical investigation of the True and Fair View Override in the United Kingdom', *Journal of Business Finance and Accounting*, 36 (1-2), 1-30.
- Macdonald, K. M. (1995), '*The Sociology of Professions*', London: Sage.

- Malik, A., Liu, J. and Kyriacou, O. (2011), 'Creative accounting practice and business performance: evidence from Pakistan', *Business Performance Management*, 12 (3), 228-241.
- Meyer, J. W. and Rowan, B. (1977), 'Institutionalized organizations: formal structure as myth and ceremony', *American Journal of Sociology*, 83 (2), 340-363.
- Mulligan, E. (2008), 'Tax Planning in Practice: a Field Study of US Multinational Corporations,' <http://wrap.warwick.ac.uk/1113/>.
- Musgrave, R. A. (1969), 'Provision of social goods' in Margolis, Julius and Guitton H. (eds.), *Public Economics*, New York: St. Martin's Press, 124-145.
- Nobes, C. and Parker, R. H. (2001), 'Comparative International Accounting', London: Prentice Hall.
- Peasnell, K. V., Pope, P. F. and Young, S. (2001), 'The characteristics of firms subject to adverse rulings by the Financial Reporting Review Panel', *Accounting and Business Research*, 31 (4), 291-311.
- Ponemon, L. A. and Gabhart, D. R. L. (1990), 'Auditor independence judgements: a cognitive-development model and experimental evidence', *Critical Perspectives on Accounting*, 7 (1), 227-251.
- Posner, R. A. (1974), 'Theories of Economic Regulation', *Bell Journal of Economics*, 5, 335-358.
- Puxty, A. G., Wilmott, H., Cooper, D. and Lowe, T. (1987), 'Modes of regulation in advanced capitalism: locating accountancy in four countries', *Accounting, Organizations and Society*, 12, 273-292.
- Ritti, R. and Silver, J. (1986), 'Early processes of institutionilization: the dramaturgy of exchange in interorganisational relations', *Administrative Science Quarterly*, 31, 25.
- Samkin, G. and Schneider, A. (2008)', 'Adding scientific rigour to qualitative data analysis: an illustrative example', *Qualitative Research in Accounting and Management*, 5 (3), 207-238.
- Smith Committee (2003), 'Audit Committee Combined Code Guidance', London: Financial Reporting Council.
- Stigler, G. J. (1971), 'The theory of economic regulation', *The Bell Journal of Economics*, 2 (1), 3-21.
- Strauss, A. and Corbin, J. (1998), 'Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory', Second Edition, Thousand Oaks, CA: Sage.
- Wade, M. J. (2008), 'The Credibility of ANAO Performance Audit', <http://ro.uow.edu.au/theses/1913>.

## Appendix One

### Publications submitted for the award

- (1) Brandt, R., Fearnley, S., Hines, T. and Beattie, V. (1997) “The Financial Reporting Review Panel: An analysis of its activities” in *Financial Reporting Today – Current and Emerging Issues 1998*. London: Accountancy Publications, 27-54.
- (2) Hines, T., McBride, K. and Page, M. (1999) “An investigation into the stock market reaction to press notices issued by the Financial Reporting Review Panel.” *Journal of Applied Accounting Research*, 5 (2), 54-83.
- (3) Fearnley S., Hines T., McBride K. and Brandt R. (2000) “Problems and politics of regulatory fragmentation: The case of the Financial Reporting Review Panel and the Institute of Chartered Accountants in England and Wales.” *Journal of Financial Regulation and Compliance*. 8 (1), 16-35.
- (4) Fearnley S., Hines T., McBride K., and Brandt R. (2000) “*A Peculiarly British Institution. An Analysis of the Contribution Made by the Financial Reporting Review Panel to Accounting Compliance in the UK.*” London: Centre for Business Performance, Institute of Chartered Accountants in England and Wales.
- (5) Hines T., McBride K. and Fearnley S. (2001) “We’re off to see the wizard: An evaluation of directors’ and auditors’ experiences with the Financial Reporting Review Panel.” *Accounting, Auditing and Accountability*, 14 (1), 53-84.
- (6) Fearnley S., Hines T., McBride K. and Brandt R. (2002) “The impact of the Financial Reporting Review Panel on aspects of the independence of auditors and their attitudes to compliance in the UK.” *British Accounting Review* (34), 109-139.
- (7) Fearnley S., Gillies A., Hines T. and Willett C. (2007) “*Bewildered but better informed: A qualitative, interview based study into the views of accountants and regulators prior to the introduction of IFRS in the UK.*” Accepted for ICAEW website (<http://www.icaew.com/index.cfm?route=112935>). Retrieved 13 June 2007.
- (8) Fearnley S. and Hines T. (2007) “How IFRS has destabilised financial reporting for UK non-listed entities.” *Journal of Financial Regulation and Compliance*, 15 (4), 394-408.
- (9) Beattie V., Fearnley S. and Hines T. (2009) “*The impact of changes to the non audit services regime on finance directors, audit committee chairs and audit partners of UK listed companies*” London: Centre for Business Performance, ICAEW.
- (10) Beattie V., Fearnley S. and Hines T. (2011) “*Reaching Key Financial Reporting Decisions: How Directors and Auditors Interact*”, Chichester: Wiley.
- (11) Beattie V., Fearnley S. and Hines T. (2012) “Do UK audit committees really engage with auditors on audit planning and performance?” *Accounting & Business Research*, 42 (3), 1-27.
- (12) Beattie V., Fearnley S. and Hines T. “Perceptions of actors affecting audit quality in the Post-Sox UK regulatory environment.” *Accounting & Business Research*, 43 (1), 56-81.

## Appendix Two

### Personal contribution to the submitted papers

The papers supporting this submission for a PhD by publication are listed below with an indication of my personal contribution to each. These papers will be presented in chronological order to illustrate how the research has developed.

(1) Brandt, R., Fearnley, S., Hines, T. and Beattie, V. (1997) “The Financial Reporting Review Panel: An analysis of its activities” in *Financial Reporting Today – Current and Emerging Issues 1998*. London: Accountancy Publications, 27-54.

**My contribution:** *I collected and analysed the publicly available data about the FRRP, its activities and its wider impact. This was supplemented by questionnaire data from another project. I was a joint contributor on the final draft.*

(2) Hines, T., McBride, K. and Page, M. (1999) “An investigation into the stock market reaction to press notices issued by the Financial Reporting Review Panel.” *Journal of Applied Accounting Research*, 5 (2), 54-83.

**My contribution:** *I was jointly involved with the research design and collected the share price data. I reviewed the literature and was lead author on drafting the paper.*

(3) Fearnley S., Hines T., McBride K. and Brandt R. (2000) “Problems and politics of regulatory fragmentation: The case of the Financial Reporting Review Panel and the Institute of Chartered Accountants in England and Wales.” *Journal of Financial Regulation and Compliance*. 8 (1), 16-35.

**My contribution:** *The FRRP project as a whole was jointly conceived. I was involved in at least 80% of interviews, sometimes as sole interviewer and took the lead on the analysis of the interviews using NUDIST software. I also obtained the relevant secondary data and helped to develop the paper.*

(4) Fearnley S., Hines T., McBride K., and Brandt R. (2000) “A Peculiarly British Institution. An Analysis of the Contribution Made by the Financial Reporting Review Panel to Accounting Compliance in the UK.” London: Centre for Business Performance, Institute of Chartered Accountants in England and Wales.

**My contribution:** *The FRRP project as a whole was jointly conceived. I collected and analysed most of the publicly available data. I was involved in at least 80% of interviews, sometimes as sole interviewer. I took the lead on the analysis of the interviews using NUDIST software. I jointly designed the questionnaire and took responsibility for analysing it. The publication was 87 pages long and contained seven chapters. I was responsible for developing and writing the first draft of three of the chapters and reviewed and commented on the others.*

(5) Hines T., McBride K. and Fearnley S. (2001) “We’re off to see the wizard: An evaluation of directors’ and auditors’ experiences with the Financial Reporting Review Panel.” *Accounting, Auditing and Accountability*, 14 (1), 53-84.

**My contribution:** *The FRRP project as a whole was jointly conceived. I was involved in at least 80% of interviews, sometimes as sole interviewer, supplemented by a questionnaire survey. I took the lead on the analysis of the interviews using NUDIST software and collected data from FRRP annual reports. I also assumed prime responsibility for developing and writing this paper, including the literature review.*

(6) Fearnley S., Hines T., McBride K. and Brandt R. (2002) “The impact of the Financial Reporting Review Panel on aspects of the independence of auditors and their attitudes to compliance in the UK.” *British Accounting Review* (34), 109-139.

**My contribution:** *The FRRP project as a whole was jointly conceived. I was involved in at least 80% of interviews, sometimes as sole interviewer, supplemented by a questionnaire survey. I took the lead on the analysis of the interviews using NUDIST software and obtained the secondary data relevant for the paper.*

(7) Fearnley S., Gillies A., Hines T. and Willett C. (2007) “Bewildered but better informed: A qualitative, interview based study into the views of accountants and regulators prior to the introduction of IFRS in the UK.” Accepted for ICAEW website (<http://www.icaew.com/index.cfm?route=112935>). Retrieved 13 June 2007.

**My contribution:** *I was jointly responsible for developing the IFRS project. I was present at all interviews conducted, was primarily responsible for analysing the data using NVIVO and*

*reviewing the literature in some of the relevant areas. The publication was over 100 pages long and contained ten chapters. I was primarily responsible for three of them.*

(8) Fearnley S. and Hines T. (2007) “How IFRS has destabilised financial reporting for UK non-listed entities.” *Journal of Financial Regulation and Compliance*, 15 (4), 394-408.

***My contribution:*** *I was jointly responsible for developing the IFRS project. I was present at all interviews conducted, was primarily responsible for analysing the data using NVIVO and reviewing the literature in some of the relevant areas. I was primarily responsible for the overall direction and first draft of the paper.*

(9) Beattie V., Fearnley S. and Hines T. (2009) “*The impact of changes to the non audit services regime on finance directors, audit committee chairs and audit partners of UK listed companies*” London: Centre for Business Performance, ICAEW.

***My contribution:*** *I was jointly responsible for developing broad direction of the post Enron regulation project and also the content and design of questionnaires sent out to the three respondent groups. I analysed the relevant qualitative content of the questionnaire and jointly developed the bulletin.*

(10) Beattie V., Fearnley S. and Hines T. (2011) “*Reaching Key Financial Reporting Decisions: How Directors and Auditors Interact*”, Chichester: Wiley.

***My contribution:*** *I was jointly responsible for developing broad direction of the post Enron regulation project and also the questionnaires sent out to the three respondent groups. I was jointly involved in all the interviews conducted and was primarily responsible for analysing the interview data. The book is 349 pages long with 17 chapters and I was responsible for the first draft of the majority of case chapters (of which there were nine), the chapters on the regulatory framework and cross case analysis. All chapters were jointly reviewed by the members of the research team.*

(11) Beattie V., Fearnley S. and Hines T. (2012) “Do UK audit committees really engage with auditors on audit planning and performance?” *Accounting & Business Research*, 42 (3), 1-27.

***My contribution:*** *I was jointly responsible for developing broad direction of the post Enron regulation project and also the content and design of questionnaires sent out to the three respondent groups. I analysed the relevant qualitative questionnaire data. While the research team jointly developed the paper, I was lead author on the literature review.*

(12) Beattie V., Fearnley S. and Hines T. “Factors affecting audit quality in the Post-Sox UK regulatory environment: perceptions of chief financial officers, audit committee chairs and audit engagement partners” accepted for Accounting & Business Research 2012.

***My contribution:*** *I was jointly responsible for developing broad direction of the post Enron regulation project and also the content and design of questionnaires sent out to the three respondent groups. I also analysed the relevant qualitative questionnaire data. The research team jointly developed the paper’s broad direction. I was lead author on the results section and the research team jointly edited the paper.*

## **Appendix Three**

### **Citations for each submitted publication**