The Irish Accounting Review (2001), Vol. 8, No. 2, 23–43

FINANCIAL REPORTING IN IRELAND[1]: THE PERIOD OF INDEPENDENT ISOLATION

Peter Clarke

University College Dublin

ABSTRACT

The development of financial reporting practices is influenced by a number of factors that are ultimately reflected in the attitudes of the regulators, the users of accounting information and the accountancy profession. This paper examines these three groups in Ireland from political independence in 1922 to the early 1960s – a period in which financial reporting practices developed only minimally. Thereafter, political and economic events were important catalysts in transforming the accounting landscape.

INTRODUCTION

According to Zeff (1971) the development of accounting is influenced by a variety of economic, political and social factors. Such factors include the providers of finance and the nature of business ownership, the political system, the stage of economic development, the taxation system, the status, size and competence of the accountancy profession. This perspective allows us to understand that accounting information is a basic social need and that accounting techniques and practices evolve and adapt to changing circumstances.

The paper focuses on the period of "independent isolation" in Ireland that runs for approximately four decades from the achievement of political independence in 1922. It concentrates particularly on the regulators, users and preparers of accounting information, since it is these three groups that either directly influence financial reporting practices or are the conduits through which other influences are channelled. For the purposes of this paper, regulators are synonymous with the government, which uses company law to regulate the content and format of financial statements. Users represent shareholders and others, mainly banks, which provide finance for companies (for convenience, the stock exchange is also included in this category). Preparers are assumed to be those in the accountancy profession, although the auditing function could be classified as part of the regulatory environment.

The paper is divided into five main sections. The first section puts the paper into an historical context by outlining the main legislative developments that took place in the UK during the period examined. Subsequent sections analyse, in turn, the regulators, users and preparers of (external) accounting reports in Ireland. A conclusion follows.

LEGISLATIVE DEVELOPMENTS IN THE UK

Arising from the Act of Union, Ireland was, between 1801 and 1922, part of the United Kingdom. Since the enacted legislation was generally similar in both countries, a review of that relating to company law provides a useful historical background to this paper. Such legislation included the 1844 Act for the Registration, Incorporation and Regulation of Joint Stock Companies (7 & 8 Vict., c. 110) that made incorporation by the simple process of registration possible for the first time – but without limited liability. The 1844 Act required, for example, that a 'full and fair' balance sheet be prepared and presented to each ordinary meeting of shareholders; but it did not require the preparation of a profit and loss account. The 1856 Joint Stock Companies Act (19 & 20 Vict., c. 47) withdrew the mandatory financial reporting and audit requirements of the 1844 Act. The compulsory audit for all companies was not reintroduced until 1900 (63 & 64 Vict., c. 48), although by this date many of the important classes of business enterprise (such as the banks and railways) were covered by their own legislation. As Hanlon (1994, p. 38) notes: 'because the audit was an annual requirement it gave some measure of assured growth and stability to the (accountancy) profession'. The provisions of the 1900 Act were augmented by the Companies Act of 1907 (7 Edw. 7, c. 50) that saw the reintroduction of a requirement for all but private companies to file an audited balance sheet with the registrar of companies. The following year, the legislation was consolidated (8 Edw. 7, c. 69) and provided that copies of the balance sheet had to be sent to shareholders seven days before the meeting. It was this 1908 Act that contained the statutory provisions for company law (and financial reporting) in Ireland until the early 1960s.

The Irish Free State came into existence in 1922. It seems remarkable at first sight that, during the next four decades, apart from minor statutes, no legislation relating to company law or financial reporting was enacted in Ireland. Indeed, in reviewing the Dáil Éireann Official Reports (DEOR), there is little reference to or debate on the issue of financial reporting. This contrasts with the situation in the UK, described below.

The (UK) 1928 Act (18 & 19 Geo. 5, c. 45) arose out of a Company Law Committee appointed in 1925, which reported in 1926 (Company Law Amendment Committee, 1926). Its recommendations were incorporated in the 1928 Companies Act but did not come into force until the consolidating act of the following year. The 1928 Act contained a provision requiring for the first time that an annual profit and loss account as well as a balance sheet be laid before the company in general meeting. However, only the balance sheet, with additional disclosure requirements for assets, needed to be filed with the registrar, while the profit and loss account remained restricted information and did not require to be audited. There was no requirement in company law to produce consolidated accounts, but the legislation did provide a definition of a subsidiary company, since inter-company holdings were, by then, common. Hannah (1983) reports that between 1920 and 1929, a total of 1,884 British firms disappeared as a result of mergers compared with 2,385 in the previous 40 years. Such mergers were a defensive strategy to reduce competition, to create economies of scale and assist in the rationalisation of troubled industries.

Deficiencies in British financial reporting and auditing were highlighted in the famous case of Lord Kylsant and the Royal Mail (*Rex v. Kylsant and another*), which is now well established in the literature (Hastings, 1962; Davies and Bourn, 1972; Ashton, 1986). The company was among the largest and most important in the UK. Briefly, the effect of Royal Mail's accounting policies during the 1920s was to hide a decline in the company's profitability and the case provided evidence of the extent to which reported profits in general might be affected by secret reserve accounting. The auditors were aware of the situation but had kept silent as they felt that their allegiance was to the board of directors rather than the public owners. In 1931, the chairman of the company (Lord Kylsant) and the company's auditor (Mr. Moreland) were charged on two counts of issuing misleading accounts in 1926 and

1927. It was alleged against them that they had wilfully deceived the shareholders by representing that the company was in a very prosperous condition when they knew it was on the verge of ruin. In his defence, Kylsant stated that it was normal practice to utilise reserves to even out fluctuations in profit from year to year and it was desirable that this should be done or the investing public would panic every time annual profit fell. Kylsant and Moreland were acquitted but the judge criticised the reporting practices of the Royal Mail company and the external audit function. The result was a protracted period of soul-searching within the accountancy profession and, according to Edwards (1989), the Royal Mail case probably had a greater impact on the quality of published data than all the Companies Acts passed up to that date.

The apparent paradox is that further legislation was not introduced in the UK until the Companies Act, 1947 (10 & 11 Geo. 6, c. 47). This is partly explained by the complete disagreement between the two leading accountancy bodies in the UK as regards the proper response to the case (Edwards, 1984). Also, the government could not be persuaded to amend company law so soon after a new Companies Act had been passed (Bircher, 1988). The 1947 Act required that the profit and loss account and balance sheets should give a 'true and fair' view (as distinct from the 1929 Act's 'true and correct' view). It also required the preparation of consolidated accounts. The minimum disclosure requirements, especially relating to the balance sheet, were significantly extended and secret reserves were outlawed. The legislation was consolidated in the 1948 Act (11 & 12, Geo. 6, c. 38).

THE REGULATORS AND REGULATORY ENVIRONMENT

The Irish Free State was born, initially, out of a War of Independence and, subsequently, a Civil War. As Meenan (1970, p. 34) notes: 'the new State therefore began its career under the most unfavourable circumstances that could well be imagined'. Questions in the Dáil (i.e. Parliament) reflect those unusual conditions. For example, in response to a question relating to the commandeering of bicycles by the army, the Minister for Defence said that they were taken and were being retained 'as a matter of military necessity to facilitate the rounding up of Irregulars, for which purpose they have been very successfully used ... The cycles will be returned to the owners at the earliest possible moment' (DEOR, 11 October 1922). When asked about the possible introduction of legislation for the encouragement of trade and commerce, the Minister responded by stating that 'the restoration of settled conditions in the country will do much more to encourage Trade and Commerce at the present time than is possible by any form of legislation' (DEOR, 13 September 1922).

For convenience the Irish Free State adopted most of the legislation then prevailing, including company law, with the Adaptation of Enactments Act, 1922 (No. 2 of 1922). Historians argue that the concept of the State as a framework of laws and institutions was not widely held in Ireland at the time of independence. Political inexperience, Catholic social philosophy, urgent economic matters, and the nationalistic tradition, all argued for a State whose role would be less substantial than that of most European nations (Lyons, 1973). The central element of Free State policy was the promotion of agricultural exports, anticipating that the resulting profits would in time stimulate more general economic growth (Breen, Hannan, Rottman and Whelan, 1990).

The First Companies Legislation

The first company law statute passed by the parliament of the Irish Free State was the Companies (Reconstitution of Records) Act, 1924 (No. 21 of 1924). This Act owed its origin to the burning of the Dublin Custom House by the IRA in May 1921, which destroyed many of the files of companies then registered together with their taxation records. It was necessary to have these records reconstituted because they were statutory documents used as evidence in court. *The Accountant* describes the situation as follows:

> An order in Council has been issued by the Irish Free State Government to compel all companies to furnish copies of all essential particulars from the date of registration up to the present date, and although it will not be possble (sic) to replace some of the documents which were lost, the present very unsatisfactory and chaotic state of affairs will be much improved. (*The Accountant*, 1924, p. 359)

It is obvious that the Irish Free State government was aware of developments in company law and financial reporting in the UK, where a committee was set up in 1925 to carry out a general review of company legislation. Arising out of their report (Company Law Amendment Committee, 1926), the Minister for Industry and Commerce established in 1927 a committee solely to investigate the law and procedure relating to bankruptcy and the winding up of companies in Ireland. In 1930, the committee presented its final report and made many recommendations (based on UK legislation), such as the adoption of Section 274 of the (UK) 1929 Act. This section provided that, if a company in liquidation was shown not to have kept proper books of account throughout the period of two years immediately preceding the commencement of the winding up, every director would be liable, if convicted, to imprisonment. The committee also noted that, in relation to accounting matters: '… although they do not come within the scope of our enquiries, there are very many pressing matters of great gravity … embodied in and provided for by said codifying Act of 1929, the enactment thereof would, in our opinion, be most beneficial for Saorstat Éireann' (Bankruptcy Law Committee, 1930, p. 5). However, no legislation was introduced as a result of its recommendations. Perhaps one reason is that the committee felt that 'the evidence satisfies us that the great majority of limited companies, both public and private, are honestly and conscientiously managed … [and cases of fraud] … create an exaggerated idea of the evils connected with limited companies and their activities' (Bankruptcy Law Committee, 1928, pp. 4–5).

The Fianna Fáil party was elected to government in 1932, and was committed to a vigorous policy of economic nationalism and self-sufficiency. Protective tariffs were quickly imposed, although some rise in protectionism would have been inevitable due to the severe world depression that began in 1929. The situation was aggravated by an "economic war" between the British and Irish governments between 1932 and 1938, which resulted in even higher tariffs being imposed on Irish exports. The Control of Manufactures Acts (1932–1934) provided a further prohibiting effect. In introducing the 1932 Bill the Minister for Industry and Commerce, Sean Lemass, stated:

> … we are endeavouring to undertake and promote rapid industrial development in this country … There are a number of factories operating here now controlled by foreign firms … The Irish are retained in the position of hewers of wood and drawers of water, as unskilled or semi-skilled workers, and seldom get a chance of acquiring the skill which under more favourable circumstances they might have acquired … There are some industries which, at the present time, are dominated by external companies … The main design behind [the Act] is to secure that we will have here in the future an Irish

> Ireland, not merely in a cultural sense but in the economic sense as well. (DEOR, 14 June 1932)

These Acts required that, before a new manufacturing company could begin operations in Ireland, one-half of its issued capital and at least two-thirds of capital with voting rights must be in the beneficial ownership of persons born in Ireland or qualified by residence, with the majority of the directors being Irish nationals. The Acts were designed to ensure the exercise of *Irish* control over the numbers and nature of external firms that might engage in manufacture in the Free State in the future. Daly (1984) points out that this legislation was a comparatively moderate reaction to popular demands rather than being something foisted on the public by the Fianna Fáil government. Some companies circumvented the Acts, so that their main impact was in the psychology of reflecting hostility to foreigners and a strong anti-competition mentality.

It would be 20 years before this legislation was repealed. This repeal will be discussed in a later section, but first it is necessary to analyse the users of accounting information within an Irish context.

USERS OF ACCOUNTING INFORMATION IN IRELAND

The development of financial reporting is also influenced by the information demands of those who provide finance to companies by way of either share capital or loans. These shareholders and loan creditors are the primary users of financial statements. In the early years of the Irish Free State, scarcity of capital was a significant problem facing Irish business. The Fiscal Inquiry Committee noted that:

> Capital for the promotion of industrial enterprise is not readily available in Ireland. The number of new companies which have been floated in recent years is comparatively small and in many cases these have been nothing more than conversions of private firms. (Fiscal Inquiry Committee, 1923, p. 37)

Irish banks had little interest in providing long-term credit for industry. Rather, they were content to have assets in the form of gilt-edged (mainly UK) securities and cash. Throughout the 1920s and 1930s, the Bank of Ireland held between 50 per cent and 60 per cent of its gross assets in securities and cash and this was by no means an unusual practice. At the end of 1928, total advances from the Irish banks to their customers stood at £96 million. By comparison, they held total cash and securities of £111 million on the same date (White, 1998). This underlending became even more pronounced as the economic situation deteriorated from 1929 onwards.

The nature and size of business organisations must be taken into consideration as well. In the early years of the Irish Free State, the limited liability company was not a popular form of business organisation. For example, between 1927 and 1932, company registrations averaged about 130 per annum and over one-quarter of the companies registered had a nominal share capital of less than £1,000. By 1932, there were less than 2,000 companies (in total) registered in Ireland (Department of Industry and Commerce, 1932) and this curtailed the amount of audit work available to professional accountancy firms. The private rather than the public limited company was (and remains) a characteristic of the Irish business landscape. Between 31 December 1925 and 31 December 1955, the number of public companies in Ireland increased from 368 to 372; by contrast, the number of private companies increased from 1,088 to 7,385 during the same period. However, a considerable percentage of the private companies formed in this period would appear to be companies incorporated to meet conditions imposed by the Control of Manufactures Acts and to reduce estate duty and taxation exposure (Company Law Reform Committee, 1958, pp. 15–16).

As a result, a feature of the Irish accountancy profession during those early years was the exceptionally high number of very small clients, with even their large clients appearing quite small by international standards (Hanlon, 1994). The chief impetus for the growth of the profession in the UK was the development of large-scale capitalism, especially the joint-stock company; Ireland, however, lacked this form of development. Without the growth of Ireland's economy in the long term and the creation of new, profitable companies, the accountancy profession in Ireland was destined to remain small. With the emergence of a Fianna Fáil government in 1932 and the implementation of protectionist policies, some move towards industrialisation took place (Meenan, 1970). Many of these new industrial firms were State companies. However, their auditors appear to have been appointed on a political basis, leading to a further restriction on the growth of large accountancy practices (Hanlon, 1994).

Not surprisingly, the Irish stock market was very small. In 1933 there were only 24 quoted industrial companies (Thomas, 1986). Connor (1937, p. 151) amusingly suggests that 'it has been said that the sight of a £10 note flourished in the Dublin Stock Exchange would be sufficient to raise the price of shares several points'. In a recent article, a former Stock Exchange president argued that 'no attempt was made by the State to develop it ... the Exchange was an unimportant place [attracting a small number of members and] ... a disastrous conservatism pervaded this community' (Dennis, 2000). A crude indicator of its lack of importance can be gleaned from estate duty returns. For example, for the tax year 1927/28, the gross capital value for estate duty purposes of shares registered in the Irish Free State amounted to £1.5 million compared with £3.9 million for British and Northern Ireland companies (DEOR, 29 May 1929). Clearly Irish residents preferred to hold British rather than Irish shares. To compound the problem, Irish share prices were dormant from 1945 to the early 1960s. Interest in the shares of Irish companies was limited and companies did not set out to court the market with liberal dividend policies (Thomas, 1986). It is plausible to argue that the main role of the Dublin Stock Exchange was to provide a method of raising government loans. This it did successfully, in that the first National Loan was raised in 1923, with additional loans being raised in 1927, 1930, 1933, 1939 and 1941.

In summary, the small size of most commercial enterprises meant that Ireland had not yet reached a stage of "managerial capitalism" whereby there was effective separation of ownership and control. This curtailed the demand for accounting information and the need for accountants to work for an improvement in annual accounting reports.

PREPARERS OF ACCOUNTING INFORMATION IN IRELAND

The accountancy profession in the early years of the Irish Free State was in an anomalous position vis-à-vis relations with Great Britain. At the outbreak of the First World War, many Irish (chartered) accountants had joined the British army and the report of the Council of the Institute of Chartered Accountants in Ireland (ICAI) to the AGM in 1918 was proud of 'the 128 members and assistants, who ... have upheld gloriously the cause of liberty'. It is interesting to note that the 128 members and assistants represented nearly 40 per cent of the Irish (chartered) accountancy profession (including articled clerks) at that time. In relation to non-military service, the same report claimed that 'no other profession with the exception of the medical has rendered greater service to the State in connection with the carrying on of the War than that of accountancy'. At the conclusion of the war in November 1918, Council sent the following telegram:

> The Council of the Institute of Chartered Accountants in Ireland, incorporated by Royal Charter, at their first meeting since the cessation of hostilities, dutifully tender to your Majesty their heartfelt congratulations on the victorious conclusion of the war and desire to express their loyalty and affection for your Majesty's throne and person and sincerest wishes for a long, peaceful and happy reign. (ICAI Council minutes, 14 November 1918)

Subsequently, at a special Council meeting (10 April 1919), it was decided to adopt the regulations laid down by the English Institute regarding examination concessions for those who had military service. Such concessions included the time spent in military service to be deemed as time spent under Articles, together with exemption from the Preliminary and Intermediate examinations, subject to certain conditions.

It is interesting to note that the implications of the War of Independence, which preceded the formation of the Irish Free State, were not directly referred to in the Council minute books. Indeed, the only reference found by this author was under the heading 'Resignation from Council'. It simply stated that a Belfast member tendered his resignation from Council 'as he thought that under the present strenuous conditions of affairs in Ireland some younger and more active man would be of greater use to the Council' (16 February 1921).

The Institute of Chartered Accountants is an all-Ireland body, and it is important to note that the strength of the accountancy profession in the North of Ireland was a predominant feature of the ICAI during this period. This is not surprising since Belfast was the major commercial centre in Ireland. **Table 1** shows the total membership of the Institute (excluding articled clerks) between 1923 and 1933, categorised by geographical location.

Table 1: Geographical Distribution of ICAI Membership

Year	Total membership*	Belfast **	Dublin **	Other (balance) **
1923	152	73	35	44
1925	183	87	54	42
1929	243	114	64	65
1933	327	142	76	109

* Source: Robinson, 1964, p. 369
** Source: Author's own calculations based on membership lists

In the early years of the Irish Free State, the Council minutes indicate that there were more immediate issues to be discussed than the development of financial reporting in Ireland. At that time the Institute, in common with its UK equivalent (ICAEW), was very concerned with the issue of registration of accountants and maintaining the status of the Chartered Accountancy profession (Walker and Shackleton, 1995). At a Council meeting it was decided 'to write to the Provisional Government to the effect that when the government had time to go into the question of legislation for the Accountancy Profession, the Institute ... would be pleased to give them any assistance they could in the matter' (ICAI Council minutes, 9 February 1922). The ICAI Council report of 1926 stated that 'the desirability of registration for practising accountants is now generally admitted ... it appears to be desirable to take such steps as will prevent people without the necessary qualifications from posing as accountants'. Also, the Institute presented a counter petition against the granting of a Royal Charter to the Institute of Cost and Works Accountants – now CIMA – (ICAI Council minutes, 8 March 1923). Another pressing matter was that of taxation, especially double tax agreement computations that arose out of the foundation of the State in 1922. Indeed, the Council report of 1931 commented that the complicated taxation had absorbed 'a considerable part of our mental and physical energy during the past 15 or 16 years'.

The accountancy profession in Ireland at that time was small and growth in membership was not impressive. In 1930 there were 261 members of the Institute and that had increased to 766 in 1950, representing a net addition of some 25 members per year during that period (Robinson, 1983, p. 369). Total membership of the Institute starkly contrasts with, for example, the Institute of Bankers in Ireland, which had about 3,500 members in 1950 (White, 1998). However, the official membership lists of the ICAI are likely to understate the number of persons working as accountants in Ireland. This is due to the existence of unqualified accountants in the workforce, since formal qualification did not have significant value at that time. Also, one needs to take into consideration members of other professional accountancy bodies working in Ireland. The Census of Population provides data on professional occupations in Ireland, although the reliability of occupational classification is questionable. **Table 2** details the numbers classified under 'Accountancy/Chartered Accountants' over three successive census years (1926, 1936 and 1946), together with some other professional occupations. (The total number of ICAI members, North and South, are also provided for comparison purposes.) Clearly, the medical and legal professions outnumbered the "accountancy" profession. In terms of overall size, the number of chartered accountants was comparable to the professional occupation of dentistry.

Table 2: Professional Occupations, 1926–1946

	ICAI members	Accountants	Doctors	Lawyers *	Dentists
1926	197	382	2,051	1,356	536
1936	375	673	1,953	1,759	512
1946	606	1,414	2,674	1,849	536

* Solicitors and Barristers (Source: Census of Population and Robinson, 1964, for Chartered Accountants)

Entry requirements for the Irish (chartered) accountancy profession also militated against its development. In order to be admitted into articles, it was necessary to have good contacts with one of the partners and each partner was restricted to having two apprentices at any one time. Furthermore, the length of articles in the case of non-graduates – who formed the bulk of the profession around that time – was five years. In addition, a premium ranging from £150 to £200 was paid to the principal, a sum substantial enough to exceed the annual average industrial wage during the 1920s and 1930s.

Another characteristic of the period is the lack of possible academic accounting influence in Ireland. For example, commerce/business faculties were first established under the Irish Universities Act of 1908, by which time there were six chairs of accountancy in the United Kingdom (Robinson, 1964). Ireland, however, had to wait until 1971 for the creation of the first full-time chair in accountancy. Members of the profession generally lacked a university business education. This is illustrated by the fact that of the 35 Dublin members listed in the 1923 Directory of Members, only seven persons possessed a B. Comm. degree. Examining the potential role of academic accounting further, one finds that while the American Accounting Association was established in 1916 and the British Accounting Association (formerly AUTA) in 1947 (Zeff, 1997), the Irish equivalent was not founded until 1987.

Due, perhaps, to their overall number and status and the prevailing environment, Irish accountants did not have any impact on financial reporting practices. For example, the Fiscal Inquiry Committee received no representation from accountancy bodies, although this could be attributable to the fact that the Committee dealt mainly with macroeconomic issues. Chartered accountants were amongst the members of the Bankruptcy Law Committee, but no legislation arose from its 1930 report. Developments in UK company law were noted without any great enthusiasm or call for their adoption in Ireland. For example, the ICAI Council report of 1931 noted, in relation to the Kylsant case, that 'it is clear also that broader views than have hitherto obtained on the disclosure of information to shareholders are asserting themselves'. Concerning company legislation, the same Council report merely stated that 'in the Irish Free State we are still working on the Act of 1908 and it is to be hoped that an early opportunity will be found of bringing this very important part of our commercial law up to date' (ICAI Council minutes, 1931). Relative to the UK, the delay in Ireland in proposing changes to company law (and therefore, financial reporting requirements) is excused by Boden (1947) as follows:

> … abuses which have made the new legislation essential in Britain have never characterised the company situation in Ireland. The reason for this is probably not so much any moral superiority of the Irish people as the fact that in a smaller and less industrialised country the opportunities for successful fraud are considerably lessened. The non-abuse of the numerous weaknesses of the Irish situation is, however,

> not a valid reason for the retention of the outmoded. Events in Britain showed conclusively that the weaknesses exist, and thus we have the unusual chance of shutting the stable door before the horse has fully realised that it is open. (p. 146)

Supporting this claim, a report of the Council of the Institute noted: 'The necessity of new legislation in keeping with the Companies Act 1928 is fortunately not so urgent in the Irish Free State chiefly owing to the fact that Companies operating here have not had time or opportunity to belabour their Accounts with investments in holding or subsidiary companies' (ICAI Council minutes, 9 May 1935). Furthermore, the 1958 Company Law Reform Committee 'found no evidence of any very substantial abuses of the law of companies as at present existing in this country. In broad outline the existing (1908) legislation would seem to have operated in a satisfactory way' (Company Law Reform Committee, 1958, p. 16).

The legal requirement to prepare consolidated accounts in Ireland was still some way off. Yet, in 1933, the Irish accountancy firm, Stokes Brothers and Pim, and the British firm, Whinney, Smith and Whinney, produced the landmark Dunlop accounts that included consolidated financial statements for the first time for a British company[2] (Farmar, 1988). But apart from the Dunlop accounts there was little chance to practice these new techniques in Ireland, since they depended on the establishment of holding companies. The slow development of group control structures in Ireland meant that the supply of, and demand for, consolidated accounts was correspondingly slow to materialise. The (Irish) Company Law Reform Committee reported in 1958 that 'no figures are available to show the extent to which the practice of forming subsidiary companies has developed. We understand that the number of subsidiary companies does not at most exceed 750 out of the total of 7,588 private companies on the register' (Company Law Reform Committee, 1958, p. 43).

THE END OF INDEPENDENT ISOLATION

The first three decades of Irish independence can be described as a period of "independent isolation", with little economic growth. In the early 1950s, Ireland's economy was stagnating and the country was experiencing considerable social problems, a situation that contrasted sharply with Western Europe where unprecedented levels of development were being experienced (Lee, 1989; Breen et al., 1990). For example, between 1950 and 1958, bank lending rose by just 10 per cent in real terms (White, 1998). MacSharry and White note that 'some wondered whether our economic problems were beyond solution, others worried that immigration had become self-perpetuating, and almost a natural way of life' (2000, p. 14). Ireland was still an agricultural country, with 45 per cent of those employed working in agriculture and fishing, while the *per capita* income was about 55 per cent of that of the United Kingdom (IBEC, 1952). The government, seeking an outside perspective on the country's economic problems, commissioned the IBEC Technical Services Corporation, a US consultancy, to do a detailed analysis of the Irish economy. The IBEC analysis was highly critical of government industrial policy where it noted:

> The heavy hand of government controls has extended widely over all business operations in a manner that tended to stifle private initiative. Price controls, exercised not as an emergency measure but as a continuing instrument, have tended to become profit controls, justified not as a means of controlling inflation, but on the ground that profits beyond a certain minimum are an evil that should be penalised, regardless of whether they result from monopoly, or from superior efficiency of operation in a fully competitive situation. (IBEC Technical Services, 1952, p. 80)

The advice from the US consultants to the government was very clear: define the economic goals and then decide on whether private enterprise or state socialism was the means for achieving them. An attractive feature of the IBEC recommendations was the possibility of economic independence from Britain. It noted that 'foreign capital likewise could be attracted in considerable volume to what would amount to a haven from the state-imposed restrictions that are so widely prevalent in Europe' (IBEC, 1952, p. 93). The government acted with relative speed to transform the climate for foreign direct investment in Ireland. The Control of Manufactures Acts, which had previously restricted majority ownership of companies to Irish nationals, were now amended to facilitate the inflow of foreign direct investment. In 1956, Export Sales Relief was introduced whereby profits from the sale of goods manufactured in Ireland and exported were relieved from tax. Since this relief was only available to incorporated entities, it led to the growth of limited companies. Subsequently, more and more subsidiaries of multinational enterprises were established in Ireland and these were followed by an influx of the large international accountancy firms. Two years later, the government issued its White Paper, *Programme for Economic Expansion* (Department of Finance, 1958), which officially signalled an abandonment of the protectionism that had been in force since the 1930s. Its origins can be traced back, at least, to the IBEC report of 1952.

In such a changing business environment, the whole area of company law and financial reporting needed review since the legislation in force was the former UK Companies (Consolidation) Act of 1908. A Company Law Reform Committee, established in 1951 and reporting in 1958, recommended that company legislation 'should not depart too far in its general principles from company legislation in Great Britain and Northern Ireland ... there is already a large volume of British investment in industry in this country and any major alterations in company law might affect the volume of this' (Company Law Reform Committee, 1958, p. 19). It also noted that there was 'a scarcity of Irish textbooks on company law and accountancy. This is due entirely to the very small market for such books so that authors and publishers find it difficult to meet the expenses of publication. The legal and accountancy professions must here rely largely upon English textbooks, the value of which would be considerably diminished if the two systems of law did not correspond in broad outline' (Company Law Reform Committee, 1958, p. 19). In relation to consolidated accounts, it recommended that the 'form of these accounts should follow closely the forms made statutory in Great Britain, so that the Irish student and practitioner will not be wholly deprived of text books on this difficult and complicated subject' (Company Law Reform Committee, 1958, p. 72).

The report led to the Companies Act 1963, which established the primary framework for accounting disclosure and required that companies' accounts must give a true and fair view. The report was heavily influenced, for the reasons cited above, by the UK Companies Act of 1948 but acknowledged that the system of company law in Ireland should be as 'simple and flexible as possible' (Company Law Reform Committee, 1958, p. 18). The 1963 Act also embodied some of the recommendations of the Jenkins Committee on company law that reported in the UK in 1962 (Deasy, 1998). It also gave certain professionally qualified accountants the sole legal right, with some exceptions, to perform an audit. It did not require the publication of a detailed profit and loss account, or figures for turnover and cost of goods sold. In justifying the recommendation that led to this approach, the Committee reported:

> We have not accepted the suggestion made to us that the accounts of every company should be prepared in such a manner that they will disclose details of turnover and the expenses of production, sale, distribution and management. Information required for general economic purposes, for wage negotiations or for the fixing of prices or profit margins should be obtained through the various Statistics Acts and not through the machinery of the Companies Acts. The purpose of a company's accounts is to give information to shareholders and creditors in a form which they will readily understand, but, as in so many other matters, too much information may be as misleading as too little. (Company Law Reform Committee, 1958, p. 67)

The accounting requirements imposed by company law were augmented by the introduction of accounting standards. In December 1969, the English Institute of Chartered Accountants (ICAEW) announced its *Statement of Intent on Accounting Standards in the 1970s* and the formation of an Accounting Standards Steering Committee (ASSC) in 1970. The Council minutes of the Irish Institute (12 February 1970) noted that 'an invitation had been received from the English Institute to nominate a representative to their Accounting Standards Steering committee ... It was agreed to nominate Mr. W. B. Lyster as the Institute's representative.' The UK and Ireland now had a common system for the formulation of accounting standards, initially through membership of the ASSC and thereafter through the Accounting Standards Committee. Ireland's subsequent membership of the, now, European Union (EU) in 1973 brought additional accounting obligations in the context of harmonisation of financial statements. Such harmonisation was designed to establish a "level playing field" for enterprises competing within the single market, and also to promote an efficient, integrated capital market for the Community (Alexander and Archer, 1998). One could also add that the need for harmonisation of financial reporting is necessary in the context of harmonising taxation systems within the EU. It would be inappropriate to harmonise taxation systems dealing with the taxation of corporate profits, without first harmonising accounting principles and disclosure practices. The Companies (Amendment) Act, 1986 implemented the prescriptive formats for the profit and loss accounts and balance sheets of companies laid down by the EU. In terms of financial reporting, the period of "independent isolation" was finally and irrevocably closed.

CONCLUSION

This paper has described the environment within which financial reporting practice in Ireland existed for the first 40 years of independence. During that time, there was little overt pressure for change by regulators, users or preparers of accounting information. Certainly, other pressing economic and political issues required government attention. For their part, the small accountancy profession in Ireland was probably content to comply with the relatively light legislative provisions regarding financial statements. Indeed, in the absence of an influential accountancy profession, it would have been difficult for auditors to impose reporting obligations on firms beyond the strict legal position. To compound the situation, the Dublin Stock Exchange was underdeveloped.

The period since the early 1960s has seen the most profound changes in Irish company reporting practices but such developments are beyond the focus of this paper. The current regulatory environment in Ireland is well documented (Brennan and Pierce, 1996; Cahill, 1996; Quinn and Sorensen, 1997; Deasy, 1998). As O'Connor (1996, p. 41) notes: 'Company financial reports from even 20 years ago are almost unrecognisable when compared with those presented today'. The development is attributable to the needs of investors, together with pressures for change by regulators and the accountancy profession. In contrast with current times, these pressures were inactive in Ireland during our period of "independent isolation".

ACKNOWLEDGEMENTS

The author acknowledges the critically constructive comments of the anonymous reviewers on the earlier draft.

NOTES

[1] Since 1922 the island of Ireland has been divided into two separate political entities commonly referred to as Northern Ireland (which remains part of the United Kingdom) and the Republic of Ireland. Unless specifically mentioned, all references to Ireland in this paper (post-1922) refer to the Republic of Ireland.

[2] One of the editors of this journal has told me that his father, who was a partner in Stokes Brothers and Pim, had a bowler hat that he wore specifically for the Dunlop audit.

REFERENCES

The Accountant (1924). Vol. LXX1, No. 2597.

Alexander, D. and Archer, S. (1998). *The European Accounting Guide,* London: Harcourt Brace Professional Publishing.

Ashton, R. (1986). 'The Royal Mail Case: A Legal Analysis', *ABACUS*, Vol. 22, No. 1, pp. 3–19.

Bankruptcy Law Committee (1928). *First Interim Report of the Bankruptcy Law and Winding Up of Companies Amendment Committee*, Dublin: The Stationery Office.

Bankruptcy Law Committee (1930). *Report of the Bankruptcy Law and Winding Up of Companies Amendment Committee*, Dublin: The Stationery Office.

Bircher, P. (1988). 'Company Law Reform and the Board of Trade, 1929–1943', *Accounting and Business Research*, Vol. 18, pp. 107–119.

Boden, I. (1947). 'The History and Development of Company Law in Great Britain and Ireland', MA Thesis (unpublished), University College Dublin.

Breen, R., Hannan, D., Rottman, D. and Whelan, C. (1990). *Understanding Contemporary Ireland*, Dublin: Gill and Macmillan.

Brennan, N. and Pierce, A. (1996). *Irish Company Accounts: Regulation and Reporting*, Dublin: Oak Tree Press.

Cahill, E. (1996). 'The Regulation of Financial Reporting in the Republic of Ireland', Working paper No 6/96, University of Siena, Italy.

Census of Population (various dates). Dublin: The Stationery Office.

Company Law Amendment Committee (1926). *Report of the Company Law Amendment Committee*, Chairman Wilfred Green, Cmd. 2657, London: HMSO.

Company Law Reform Committee (1958). *Report of the Company Law Reform Committee*, Dublin: The Stationery Office.

Connor, M. (1937). 'Operations of Underwriting and Issuing Houses with Particular Reference to the Irish Free State', M. Comm. Thesis (unpublished), University College Dublin.

Dáil Éireann Official Reports (DEOR) (various dates). Dublin: The Stationery Office.

Daly, M. (1984). 'An Irish-Ireland for Business?: The Control of Manufactures Acts, 1932 and 1934', *Irish Historical Studies*, XXIV (64), November, pp. 246–272.

Davies, P. and Bourn, A. (1972). 'Lord Kylsant and the Royal Mail', *Business History*, January, pp. 102–123.

Deasy, N. (1998). 'Republic of Ireland', in *The European Accounting Guide*, Alexander, D. and Archer, S. (eds.), Harcourt Brace London: Professional Publishing, pp. 878–984.

Dennis, R. (2000). *Sunday Independent*, Dublin, 4 June.

Department of Finance (1958). *Programme for Economic Expansion*, Dublin: The Stationery Office.

Department of Industry and Commerce (1932). *11th General Annual Report by the Department of Industry and Commerce*, Dublin: The Stationery Office.

Edwards, J. R. (1984). 'The Accounting Profession and Disclosure in Published Reports, 1925–35', in *The Evolution of Corporate Financial Reporting*, Lee, T. and Parker, R. (eds.), New York: Garland Publishing.

Edwards, J. R. (1989). *A History of Financial Accounting*, London: Routledge.

Farmar, T. (1988). *A History of Craig Gardner & Co.: the First 100 Years*, Dublin: Gill and Macmillan.

Fiscal Inquiry Committee (1923). *Report of the Fiscal Inquiry Committee*, Dublin: The Stationery Office.

Hanlon, G. (1994). *The Commercialisation of Accountancy*, London: Macmillan.

Hannah, L. (1983). *The Rise of the Corporate Economy*, London: Methuen.

Hastings, Sir Patrick (1962). 'The Case of the Royal Mail', in *Studies in Accounting Theory*, Baxter, W. and Davidson, S. (eds.), London: Sweet and Maxwell.

IBEC Technical Services (1952). *An Appraisal of Ireland's Industrial Potentials*, Dublin: Stationery Office.

Lee, J. J. (1989). *Ireland 1912–1985: Politics and Society*, Cambridge: Cambridge University Press.

Lyons, F. (1973). *Ireland since the Famine*, London: Fontana.

MacSharry, R. and White, P. (2000). *The Making of the Celtic Tiger: The Inside Story of Ireland's Boom Economy*, Cork: Mercier Press.

Meenan, J. (1970). *The Irish Economy since 1922*, Liverpool: Liverpool University Press.

O'Connor, P. (1996). 'Financial Reporting Reforms – an Irish Perspective', in *Financial Reporting and Auditing*, McHugh, G. and Rowe, D. (eds), Dublin: Gill and Macmillan.

Quinn, S. and Sorensen, O. (1997). 'The Regulation of Financial Reporting in Denmark and in the Republic of Ireland: A Comparative Study', in *Comparative Studies in Accounting Regulation in Europe*, Flower, J. and Lefebvre, C. (eds.), Leuven: Uitgeverij Acco.

Robinson, H. (1964). *A History of Accountants in Ireland*, Dublin: The Institute of Chartered Accountants in Ireland.

Robinson, H. (1983). *A History of Accountants in Ireland*, Dublin: The Institute of Chartered Accountants in Ireland.

Thomas, W. (1986). *The Stock Exchanges of Ireland*, Liverpool: Francis Cairns (Publications) Ltd.

Walker, S. and Shackleton, K. (1995). 'Corporatism and Structural Change in the British Accountancy Profession, 1930–1957', *Accounting, Organizations and Society*, Vol. 20, pp. 467–503.

White, D. (1998). *A Century of Banking*, Dublin: The Institute of Bankers in Ireland.

Zeff, S. (1971). *Forging Accounting Principles in Five Countries*, Illinois: Stripes Publishing Company.

Zeff, S. (1997). 'The Early Years of the Association of University Teachers of Accounting: 1947–1959', *British Accounting Review*, Vol. 29, Special issue, pp. 3–39.