



**External Auditing:
The Influence of Internal Control on the
Reliability and Integrity of Financial Statements on SMEs in Dublin**

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Abstract :

This research aims to determine the influence of internal control on the reliability and integrity of financial statements on SMEs in Dublin. Data was collected using questionnaires from employees that work on SMEs in Dublin and interview questionnaires with auditors from Big 4 audit firms. The data were analysed using simple percentages and tables.

This research found positive influence of internal control on the reliability and integrity of financial statements analysing the internal control analysing its four categories: Internal Control Environment (Philosophy), Internal Control Organisational Structure, Internal Control Activities and Risk Assessment.

We recommend recordkeeping analysis in respect to the financial transactions, employee retention as a priority for any company in Dublin and a new software so that inherit risk may be avoided and figures informed on the financial statements represents the true and fair view the company.

Key Words: Internal Control, Financial Statements, Management, Integrity, Reliability.

Contents

CHAPTER 1.....	6
1. INTRODUCTION.....	6
1.1.Aims and Objectives.....	7
CHAPTER 2.....	8
2. LITERATURE REVIEW	8
2.1.The Need of Audit	8
2.2.The Audit Risk: Audit Approach.....	9
2.3.Internal Controls and Testing Controls	9
2.4.The Impact on Business Effectiveness	10
2.5.Reliability and Integrity of Financial Statements	11
CHAPTER 3.....	13
3. METHODOLOGY	13
3.1.Introduction	13
3.2.Research Method	13
3.3.Research Approach.....	13
3.4.Data Collection Method.....	14
3.5.Sampling.....	14
3.6.Research Process	15
3.7.Design Method	15
3.8.Data Analysis.....	15
CHAPTER 4.....	16
4. FINDINGS AND DISCUSSION.....	16
4.1.Introduction	16
4.2.Results	16
4.3.Discussion.....	23
CHAPTER 5.....	29
5. LIMITATIONS, CONCLUSION AND RECOMMENDATIONS	29

5.1.Limitation	29
5.2.Conclusion and Recommendations	29
Bibliography	31
APPENDICES	36
Appendix 1: Supervision Meeting	36
Appendix 2: Informed Consent Form.....	37
Appendix 3: Informed Consent for Quantitative Research Instrument on google forms	41
Appendix 4: Ethical Approval Form A	42
Appendix 5: Survey Pilot	44
Appendix 6: Online Interview - Deloitte Representant	50
Appendix 7: Online Interview - EY Representant.....	51

CHAPTER I

1. Introduction

Small and medium-sized enterprises (SME), which typically represent family businesses with one or more proprietors, are responsible for building the foundation of global commerce (Korbelová, 2016). The SME sector can be divided into three categories: Micro Enterprise which is a business with less than 10 employees and a balance sheet or annual turnover of no more than €2 million, Small Enterprise which is a business with less than 50 people and a balance sheet or annual turnover of no more than €10 million, and a Medium Enterprise which is a business with less than 250 people and a balance sheet or annual turnover of no more than €50 million but no more than €43 million (ISME, 2022).

According to a survey undertaken from 2018 to June 2022, there are 269,708 SMEs operating in Ireland, with 246,153 being micro-sized enterprise, 19,967 being small businesses and 3,588 medium-sized businesses (Clark, 2022). The Irish labour market is especially dependent on SMEs. In Ireland, 99.8% of businesses fall within the SME category. In the “non-financial business economy,” they produce more than 70% of all employment, which is around 4% greater than the EU average (Enterprise, 2022).

Consequently, the effective management of any company’s operations depends on the financial statements being prepared correctly. It has to do with summarising the outcomes of the company’s financial performance and position over a specific time period, but it also involves do with evaluating the company’s relationships with government bodies who oversee all economic output in the country, as well as activities related to profit-making (Gapsalamov, et al., 2017). Financial statements are the most comprehensive, accurate, and reliable source of information available today that may be used to assess a company’s resources and financial position (Thalassinos & Liapis, 2014).

Compared to multinationals, small and medium-sized enterprises (SMEs) are less resilient to personnel loss. Profitability and growth are the primary goals of business owners, and a company should be identified by effective innovation strategies and sustained growth (Nertila, 2022). Accountants and auditors may and should take the lead in assisting the business in adopting an integrated strategy that is focused on risk management and internal control, which in turn aids in the development, expansion, and preservation of shareholder value, in addition to this, Internal control is

a crucial component of an organization's management structure and its ability to mitigate risk (Nertila, 2022).

Under the circumstances, businesses have come under increasing pressure in recent years to strengthen their internal controls as a result of a variety of factors and stakeholders (Christensen, 2022). A variety of disclosure requirements that are reliant on efficient internal controls for compliance and reporting were introduced as a result of the financial crisis, which increased this pressure (Van der Stede, 2011).

Traditionally, businesses opted to external auditors for guidance when they required help with internal controls (Power, 2009). Accordingly, internal controls are actions taken by a company to guarantee that its purposes, strategies, and missions are achieved (Ogneva, et al., 2007). It is considered that effectively planned and implemented internal control systems would typically result in more accurate financial reporting processes and accurate reports that enhance a company's management responsibility role (Doyle, et al., 2007).

Internal controls are defined in this research as the policies established by a business to provide (a) an acceptable level of confidence regarding the achievement of efficient and (b) an effective operations, accurate financial reporting, and (c) compliance with relevant rules, legislation, and statutes (Whittington & Pany, 2019).

The purpose of this research is to demonstrate the influence that internal controls have on the integrity and reliability of financial statements on SMEs in Dublin.

1.1.Aims and objectives

- a) To understand how important is accounting information being verified.
- b) To emphasise the risk-based approach performed by the auditor as a powerful tool to reduce the client risks.
- c) To describe how controls have impact on the internal controls.
- d) To analyse the impact that internal control has on the effectiveness of the business.
- e) To demonstrate the influence that internal control has in respect to the integrity and reliability of the financial statements.

CHAPTER II

2. Literature Review

2.1. The Need of Audit

The growing segregation of ownership from business management has boosted necessity of auditing. According to Nolan (2010), some sort of auditing and accounting emerged in Greece as early as 500 BC, however, due to Industrial Revolution and the rise of public-owned businesses in the nineteenth century that it has become evident the necessity for auditing. As the volume of users of financial statements as well as other content provided by organizations has grown over time, the demand for auditing has expanded. Consequently, Nolan (2010) states that various high-profile accounting scandals have occurred in the recent decade or two, especially Enron (2001), World-Com (2001), Xerox, and Parmalat. Gray et al (2019) argues that the banking crisis that hit in 2007/2008 and the ongoing financial collapse have brought into question top management's ethics and trustworthiness, and thus people begun to question why auditors had not identified sooner that financial institutions were making poor lending decisions. He also asserts that auditing has become front-page news in newspapers, journals, broadcast news, blogs and debate programs (Gray et al, 2019). The purpose of auditing is to verify accounting information to determine the reliability and integrity of accounting statements and records (Souilah & Zahraoui, 2020). Therefore, in relation to financial statement audit engagements, the auditor is conditioned by relevant ethical standards, especially when it relates to independence (IAASB, 2020). The international Auditing and Assurance Standards Board (IAASB) argues that the auditor do not take precedence over local rules or laws that regulate the audit of historical financial statements or assurance engagements on other information in a determined country and must be conducted in compliance with that country's national laws (IAASB, 2020). Gray et al (2019) affirms saying that an auditor is an investigator who seeks sufficient proof to guide reasonable assurance to be made to give on the true and fair view of financial and other information by a person or persons who are independent of the preparer and who are able to benefit straight from the data's use, as well as the issuance of a report on that data with the purpose of raising its trustworthiness and thus its relevance. Chen, et al (2013) similarly states that in the auditing industry, service quality refers to audit quality or auditor quality. Audit firms are a professional service organization rendering services to companies by professional auditors.

2.2.The Audit Risk: Audit Approach

According to Le, et al (2022), adopting an audit strategy is one of the most essential variables that determine the audit's success, furthermore, if auditors use the wrong audit approach, the chances of the audit failing increases. He also argues that risks are being identified more proactively by audit firms, particularly critical risks by whom auditor build methodologies, plans and procedures (Le, et al.,2022). Consequently, any company's financial statements are vulnerable to serious misstatement, which leaves any auditor undertaking a quality audit at risk (Johnstone, et al., 2014). ISA 315 (Revised) states that it is auditor's duty to detect and analyse the risk of material misstatements in financial statements by knowing the company and its context as well as its internal control (Deloitte, 2020). Johnstone, et al (2014) states that risk is a concept that describes the uncertainty related to events as well as its consequences which could have a significant impact on a company. Johnstone, et al (2014) describe audit risk in four categories: **Inherent Risk** – before considering any related controls, the vulnerability of an assertions about a type of transaction, account balance, or disclosure to a significant misrepresentation, either separately or in combination with other misstatements, **Control Risk** – the risk that a material misstatement in an assertion about a complexity of transactions, account balance, or corporate governance, **Audit Risk** – the risk when financial statements are considerably misstated, there is a possibility that the auditor will issue an improper audit opinion and **Detection Risk** – the risk that the auditor's measures for reducing audit risk to an acceptable level will notice a material misstatement. Bowlin (2011) argues that more (fewer) audit material is provided to accounts which are more (less) likely to be misstated under risk-based audit. Yet, undetected misstatements within purportedly low-risk accounts may be more frequent than typical risk assessment methods suggest if auditors do not consider the strategic risk that develops when client management anticipate auditors' risk-based resource allocations. The concurrent development of risk management theories and methods made a solid foundation for the audit's re-engineering and process of planning and conducting company's risk audits, on the other hand, was exceedingly tough and may have run into a variety of unforeseen and mismanaged barriers, notably in terms of typical audit procedures. (Knechel, 2007).

2.3.Internal Controls and Testing Controls

According to Bohean (2021), there are regularly intense disputes between individuals who feel that the greatest decision – making is based on calculations, given a set of previous events, and others who feel that the best decision – making is based on more subjective levels of assurance about the

uncertainty. Controls are designed to mitigate instead of remove risks and residual risk levels must be evaluated to verify that they are compatible with the acceptance and tolerance levels established in the control system design taking into account that when risk levels are out of range, the design features must be reconsidered (Dittmeier & Casati, 2014). Dittmeier & Casati (2014) states that the competence to examine various paths and eventually select control methods that maximise cost and benefit is essential for an efficacious internal control system that oversees risk mitigation. As described in ISA 315, internal control is the process designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with laws and regulations (Nolan, 2010). A query with the client or suitable professional conducting the key controls, watching during manual work or online, or acquiring and reviewing reports or papers are just few of the methods for testing key controls which the auditor should decide whether to test critical controls and supplementary controls together (Crowley & Balagtas, 2020). According to Lydon (2021), auditors use an approach to estimate whether testing controls will enhance the audit more efficient overall (i.e. will help to reduce substantive testing and results of control testing will show if the controls are operating effectively) in four steps: Step 1 – Identify Risks and Objectives within each Financial Cycle, Step Two – Ascertain System and Internal Controls, Step Three – Assess the Systems and Internal Controls, Step Four – Test the Systems and Internal Controls (only if they are deemed). Marasco (2007) states that The board of directors is ultimately in charge of a company's internal control system. It should establish suitable internal policy measures and obtain frequent verification that the system is operating properly. Managers are responsible for putting the board's risk and control policies into action. For the board's consideration, management should assess and prioritize the company's risks. To accomplish the board's objectives, management should create, administer, and supervise an appropriate system of internal control.

2.4.The Impact on Business Effectiveness

Due to the importance of economic competitiveness, financial performance is a big worry these days and one aspect of this performance is the managers' ethical and responsible behaviour, moreover, the Enron and WorldCom crises at the close of the twentieth century demonstrate that companies lacked control (Bertin, 2007). Bertin (2007) explains that measures have been made in response to the financial scandals. In order to overcome the errors of economic and legal assistance, it has become necessary to give ethical control in the purpose of leading to a deeper understanding of the substance

of internal control. Many audit operations turn to the business for assistance in examining control efficiency and development, moreover, shareholders can perform simple tasks like updating a control overview and documenting control effectiveness test stages which enables the firm to genuinely own the analysis of those controls (HighBond, 2022). DeFond & Zhang (2014) states that high quality audited financial statements are required to make decisions that meet the needs of investors and other stakeholders. As a result, improving audit quality has become critical since good audit quality leads to high-quality financial reporting. By contrast, Elinda et al (2019) argues that lower audit quality is a deliberate activity that lowers the quality of audit operations, raising the likelihood of a negative opinion on financial statements that are not accurate. Terrell (1974) explains the effectiveness of a company's internal control system is generally recognized as a prerequisite to the auditing process as it is considered the major determinant of the selection, timing, and the extent to which auditing procedures should be applied or restricted.

2.5. Reliability and Integrity of Financial Statements

Users think that high audit quality means the absence of any misstatements in financial information (Marianne & Warren, 2021). Similarly, Kurniawan (2016) explains that financial statements as a communications channel for companies' linked parties. As a result, companies must prepare financial statements of a defined quality and reliability, and the information contained in the reports must not misrepresent report users. According to Xiao (2011) firms may incorporate many procedures to enhance and develop their internal control systems. These include for example; dividing responsibilities, creating internal audit divisions, using efficient electronic information tools and giving more attention to their employees' skills by sharing them in periodic training courses and seminars. Accordingly, before beginning audit approach, many areas of internal control systems must be analysed, including a joint assessments of the reliability and credibility of all evidence obtained on the numerous strengths and weaknesses of key viewpoints of internal control systems, followed by the preparation of a strict assessment based on the results of such measurement (Weber, 1978). By contrast, Kurniawan (2016) emphasise that since profitability data is so crucial, each company competes to increase revenue. Nevertheless, there are certain individuals who use financial data to attain personal objectives in an unjust manner. This is why profit manipulation is regularly practiced by company executives who are aware of the company's realities. It has a tendency to persuade investors to put their money into the company. Abbas, et al (2021) reinforce that the effectiveness to which financial statements are presented to reflect accurate and fair data is referred to as financial statement integrity. Furthermore, financial statements are the product of an accounting procedure that

can be used to express financial information or the firm's actions throughout a given period between management and stakeholders outside the organization.

CHAPTER III

3. Methodology

3.1. Introduction

This chapter discusses the methods that have been used in the collection and analysis of data to answer the research questions of the study. It explains the research method; the research approach; the methods of data collection; sampling; the research process; design method and the data analysis of the project. The overall method is a mix of qualitative and quantitative research that was carried out this research.

3.2. Research Method

The research method was mixed methods using the strengths of both quantitative and qualitative research. It allowed the user to collect clear answers. The reason why mixed method was used is the possibility to use strengths from both methods. This research adopted a five-point Likert scale to assess participants' perception based on their experience in which 5 stated 'strongly agree', 4 stated 'agree', 3 stated 'Neutral', 2 stated 'disagree' and 1 stated 'strongly disagree'. The qualitative method is used to facilitate the collection of deeper information using the interviews. However, most of the time, responders do not like this approach. On the other hand, the quantitative method is used to reach a bigger quantity of responders with a specific survey, since responders do not need much time to answer to it.

3.3. Research Approach

The research approach was interpretivism and post-positivism. In order to tackle complicated research issues, a mixed-methods strategy that combines the post-positivist and interpretivist philosophical frameworks offers a variety of advantages (Fetters, 2016), in other words, the adoption of mixed methods allows the researchers to adequately address the richness of their study topics and supports in generalising the implications of their results to the entire population (Enosh, et al., 2014). The reason why two approaches were used is because a mixed method was used. The qualitative method has association with interpretivism where it states the importance of understanding or interpreting the beliefs and actions in order to understand the social reality and address the right issue with the right

action. The post-positivism has association with the mixed method, a wide perception and critical examination to facilitate understanding, consideration of factor to have a clear collection of data avoiding any error.

3.4.Data Collection Method

Based on the information raised from the literature review and chats with people currently working in the Big 4 audit firm, a survey of 20 questions was done (see appendix 5 for survey pilot). Both qualitative and quantitative question were used and the reason for this mixed method was because I was able to collect opinion on the daily routine auditors that deals with internal control system of SMEs and an overall opinion about internal control from all participants that works in SMEs in Dublin.

Interviews were also done with 2 experienced participants working in the Big 4 audit firms, where a few statements were offered in order to give them a thought and ask for their opinion according to their experience as auditors (see appendix 6 and 4 for survey online interview).

3.5.Sampling

In order to select the sampling for the online interview, the participants were chosen based on their experience in the SMs in Dublin, where important information could be collected. The questions on the interview would take around 15 minutes to be responded. The ideal group of participants were employees that work in different sectors in SMEs in Dublin.

A company can be positively or negatively impacted by the quality of employees in respect of how they follow the rules, policies and procedures. Nevertheless, some people do not really pay much attention on the importance of internal control of the company on a daily basis. Therefore, the research participants were employees who only work on a day-to-day basis to bring in profits for the company.

The survey has 20 questions and a table is used to show the findings. The interview contains 5 qualitative questions where coding was needed in order to get to the appropriate findings (see appendix 6 and 7 for the interviews).

3.6. Research Process

In respect to the survey, a pilot was done (see appendix 5 for survey pilot) created on google docs platform, where 64 answers were collected. The survey had 20 questions, all of them are quantitative. However, only 2 people did not consent to participate in this research, therefore, their results have been removed from this research.

The interview was done by email because of the Covid-19 inconvenience. In the email sent to the participants, a few statements were given to give them a sense of the topic and a few questions were asked based on those statements. The questions on the interview would take around 15 minutes to be responded.

3.7. Design Method

The Triangulation Design represents the most popular and well-known technique for applying both methods: quantitative and qualitative (Creswell, et al., 2003). Its purpose is to obtain different, but complementary data of the same topic for best comprehension of the research problem (Morse, 1991).

Collecting data from different methods, qualitative method is the data collected from the interviews to validate the quantitative data collected from survey, and to support all those data, a secondary data set from the literature review is also used.

3.8. Data Analysis

To put in simple, mixed methods research refers to the kind of research by which a researcher combines aspects of qualitative and quantitative research methods (such as the use of qualitative and quantitative viewpoints, data collection, analysis, and inference techniques) for the general goals of breadth and depth of comprehension and confirmation (Johnson, et al., 2007). Combining different methodologies, results will bring complementarity and confirmation for the research (Small, 2011).

By using the triangulation design in order to combine the findings from two different methods, we have a better overview of all the findings with the purpose of creating a discussion and being able to express the researcher's opinion based on the final findings.

CHAPTER IV

4. Findings and discussion

4.1.Introduction

In this chapter, the current research sought to examine the influences of internal control on the reliability and integrity of financial statements on SMEs in Dublin.

4.2.Results

Table 4.2. Analysis of Data Collection of Responses on whether internal control has an influence on the reliability and integrity of financial statements.

Q. NO	Questions/Statements	Responses	Percentage
1	What is your age?		
	a) 18 – 24	10	16%
	b) 25 – 34	30	49%
	c) 35 – 44	20	32%
	d) 45+	2	3%
2	What Industry are you working in?		
	a) Accounting/Business	16	26%
	b) Administration	1	2%
	c) Architecture	1	2%
	d) Aviation	1	2%
	e) Banking	1	2%
	f) Catering	1	2%
	g) Construction	5	8%
	h) Digital marketing	1	2%

	i) Education	3	5%
	j) Hairstylist	1	2%
	k) Health Services	3	5%
	l) IT	3	5%
	m) Pharmaceutical	1	2%
	n) Retail	11	18%
	o) School	1	2%
	p) Security	2	3%
	q) Tourism & Hospitality	10	12%
Internal Control Environment (Philosophy)			
3	<p>Management frequently reviews the performance of employees and provides feedbacks where relevant.</p> <p>a) Strongly Agree</p> <p>b) Agree</p> <p>c) Neutral</p> <p>d) Disagree</p> <p>e) Strongly Disagree</p>	<p>20</p> <p>22</p> <p>07</p> <p>10</p> <p>3</p>	<p>32%</p> <p>36%</p> <p>11%</p> <p>16%</p> <p>5%</p>
4	<p>My department has a written policies and procedures manual.</p> <p>a) Strongly Agree</p> <p>b) Agree</p> <p>c) Neutral</p> <p>d) Disagree</p> <p>e) Strongly Disagree</p>	<p>23</p> <p>20</p> <p>12</p> <p>05</p> <p>01</p>	<p>38%</p> <p>33%</p> <p>20%</p> <p>8%</p> <p>1%</p>

5	<p>I intend to stay in this organisation for the next 3 years.</p> <p>a) Strongly Agree</p> <p>b) Agree</p> <p>c) Neutral</p> <p>d) Disagree</p> <p>e) Strongly Disagree</p>	<p>07</p> <p>18</p> <p>12</p> <p>10</p> <p>15</p>	<p>11%</p> <p>29%</p> <p>20%</p> <p>16%</p> <p>24%</p>
6	<p>I feel secure and confident in my current role.</p> <p>a) Strongly Agree</p> <p>b) Agree</p> <p>c) Neutral</p> <p>d) Disagree</p> <p>e) Strongly Disagree</p>	<p>15</p> <p>29</p> <p>07</p> <p>07</p> <p>04</p>	<p>24%</p> <p>47%</p> <p>11%</p> <p>11%</p> <p>7%</p>
Internal Control Organisational Structure			
7	<p>There is a clearly defined line of authority and responsibilities.</p> <p>a) Strongly Agree</p> <p>b) Agree</p> <p>c) Neutral</p> <p>d) Disagree</p> <p>e) Strongly Disagree</p>	<p>14</p> <p>26</p> <p>14</p> <p>05</p> <p>03</p>	<p>22%</p> <p>42%</p> <p>23%</p> <p>8%</p> <p>5%</p>

8	The company has many hierarchies.		
	a) Strongly Agree	18	29%
	b) Agree	26	42%
	c) Neutral	13	21%
	d) Disagree	05	8%
	e) Strongly Disagree	0	0%
Internal Control Activities			
9	Management review financial transactions regularly.		
	a) Strongly Agree	10	16%
	b) Agree	25	40%
	c) Neutral	22	36%
	d) Disagree	04	6%
	e) Strongly Disagree	1	2%
10	There is a possibility for a single staff to have access to all valuable financial information without the consent of other staff.		
	a) Strongly Agree	02	3%
	b) Agree	08	13%
	c) Neutral	11	18%
	d) Disagree	18	29%
	e) Strongly Disagree	23	37%

11	<p>The software used by the company is not completely automated and I have to do a lot of work manually.</p> <p>a) Strongly Agree b) Agree c) Neutral d) Disagree e) Strongly Disagree</p>	<p>12 14 14 11 11</p>	<p>20% 22% 22% 18% 18%</p>
12	<p>All staff demonstrates a genuine interest in understanding needs and takes personal responsibility for meeting these needs.</p> <p>a) Strongly Agree b) Agree c) Neutral d) Disagree e) Strongly Disagree</p>	<p>04 22 16 15 05</p>	<p>6% 36% 26% 24% 8%</p>
13	<p>All team members anticipates and takes action to minimise risk or disruptions to care or service.</p> <p>a) Strongly Agree b) Agree c) Neutral d) Disagree e) Strongly Disagree</p>	<p>06 22 22 11 04</p>	<p>9% 34% 34% 17% 6%</p>

14	<p>There is one central location for all invoices.</p> <p>a) Strongly Agree</p> <p>b) Agree</p> <p>c) Neutral</p> <p>d) Disagree</p> <p>e) Strongly Disagree</p>	<p>06</p> <p>26</p> <p>22</p> <p>06</p> <p>02</p>	<p>10%</p> <p>42%</p> <p>35%</p> <p>10%</p> <p>3%</p>
15	<p>Management encourages regular team meetings.</p> <p>a) Strongly Agree</p> <p>b) Agree</p> <p>c) Neutral</p> <p>d) Disagree</p> <p>e) Strongly Disagree</p>	<p>13</p> <p>22</p> <p>10</p> <p>13</p> <p>04</p>	<p>21%</p> <p>36%</p> <p>16%</p> <p>21%</p> <p>6%</p>
16	<p>There are sufficient training opportunities provided to improve competency and update employees on policies and procedures.</p> <p>a) Strongly Agree</p> <p>b) Agree</p> <p>c) Neutral</p> <p>d) Disagree</p> <p>e) Strongly Disagree</p>	<p>12</p> <p>17</p> <p>13</p> <p>13</p> <p>07</p>	<p>19%</p> <p>28%</p> <p>21%</p> <p>21%</p> <p>11%</p>

17	The frequency and scope of supervision and monitoring activities are appropriate to the size and nature of the entity.		
	a) Strongly Agree	07	11%
	b) Agree	19	31%
	c) Neutral	20	32%
	d) Disagree	15	24%
	e) Strongly Disagree	01	2%
18	Employees do not have to work excessive overtime or outside the ordinary workweek to complete assigned tasks.		
	a) Strongly Agree	16	26%
	b) Agree	23	37%
	c) Neutral	9	14%
	d) Disagree	11	18%
	e) Strongly Disagree	03	5%
Risk Assessment			
19	Risk assessment have been performed recently in my department.		
	a) Strongly Agree	07	11%
	b) Agree	17	28%
	c) Neutral	24	39%
	d) Disagree	12	19%
	e) Strongly Disagree	02	3%

20	My department has had audits/reviews (external, federal and/or local inspector general) in the last 2 years.		
	a) Strongly Agree	15	24%
	b) Agree	25	40%
	c) Neutral	16	26%
	d) Disagree	0	0%
	e) Strongly Disagree	6	10%

Source: Field Survey, Data – 2022

4.3. Discussion

Table 4.2 has been presented and analysed to show whether internal control has significant effect on the reliability and integrity of financial statements. The analysis of internal control was done with four aspects of internal control: 1) Internal Control Environment (Philosophy), 2) Internal Control Organisational Structure, 3) Internal Control Activities and 4) Risk Assessment among various type of industry on SMEs in Dublin.

Internal Control Environment (Philosophy)

Out of 62 respondents, 42 representing 68% affirmed that management frequently review the performance of employees and provided feedbacks whereas 13 or 21% disagreed. Only 7 or 11% were neutral. Also, on whether department has a written policies and procedures manual, 43 representing 71% affirmed that their department has a written policies and procedures manual. By contrast, 6 representing 9% disagreed. Only 12 representing 20% were neutral. It is important to emphasise that competent people in which understand their responsibilities, the limits of their authority, and are knowledgeable, mindful and committed will reflect the values of the entity, as a result, will produce accurate financial statements for SMEs in Dublin. A partner in EY support this statement by saying, “if those charged with governance do not have established entity level controls, especially related to the organizational culture, behaviour, internal process policies, will impact the whole business’s performance in a short and long term.” In Addition to this, the literature review also corroborates affirming that the internal control is a process designed and effect by those charged with

governance to provide reasonable assurance about the achievement of the entity's objectives, effectiveness and efficiency of operations and compliance with laws and regulations.

In respect to whether employees intent to stay at the same company for next 3 years, out of 62 respondents, 25 representing 40 per cent answered affirmative while surprisingly 25 representing 40 per cent disagreed. Only 12 representing 20 percent were neutral. Furthermore, 44 representing 71 per cent agreed that they feel secured and confident with the current role, while 11 representing 18 percent disagreed. Only 7 representing 11 per cent were neutral. Management should be cautions on this matter. Employees leaving the company or not feeling secure and confident, will have a significant impact on company's internal control in respect to loss a valuable knowledge, high costs, team's performance and sometimes resulting the remaining team members burnout.

Internal Control Organisational Structure

When comes down to internal control structure, out of 62 respondents, 40 representing 64 per cent agreed that there is a clearly defined line of authorities and responsibilities, while 8 representing 13 per cent disagreed. Only 14 representing 23 percent were neutral. Also, 44 representing 71 per cent agreed that the company has many hierarchies, while 5 representing 8 per cent disagreed. Only 13 representing 21 per cent were neutral. The corporate governance complexity may influence the internal control on the reliability and integrity of financial statements. As mentioned in the literature review, high profile scandals brought into question management's ethics and trustworthiness, resulting in financial disaster, affecting millions of people. In response for this issue, the literature review highlights the need of audit for SMEs in Dublin reinforcing that the purpose of auditing is to verify accounting information to determine the reliability and integrity of accounting statements and records. Further, a partner in EY sustains this argument by saying, "the auditing involves understanding in a deeply way the entity's business, their risks, peculiarity and all the other aspects that drive the business operation," and also explain to business owners in SMEs in Dublin which approach auditors take, "considering a risk-based approach the auditor is able to conduct an audit work performing primary substantive procedures for areas that have different aspect and put under spotlight those aspects that brings risks to the engagement. By doing this, it is possible to properly assess and address risks in a timely and accurate manner in the audit process."

Internal Control Activities

Out of 62 respondents, 35 representing 56 per cent affirmed that management review the financial transactions regularly, while only 5 representing 8 per cent disagreed. However, 22 representing 36 per cent were neutral. Managers oversees crucial tasks like keeping tabs on cash flow, figuring out profitability, controlling spending, and creating reliable financial data. Although the majority understand that managers are reviewing financial transactions, a considerable number 36 percent are neutral, which means that management is not sufficiently engaging or influential. On this matter, the internal control will suffer a negative impact, such as payment for goods not received, errors in the amount paid, sales not recorded properly and even employees not written off from the system. Therefore, it is important for the management review the internal controls in order to mitigate risks resulting from financial transactions. To support this statement, the literature review highlights the importance of management review financial transactions by saying, “controls are designed to mitigate risks and residual risk levels must be evaluated to verify that they are compatible with the acceptance and tolerance levels established in the control system.” In addition to this, a partner in EY corroborates explaining this impact on the reliability and integrity of the financial statements by saying, “a reliable financial position is possible to evaluate decisions and results about the future.”

Also, out of 62 respondents, only 10 representing 15 per cent agreed that there is a possibility for a single staff have access to all valuable financial information without the consent of other staff, while 41 representing 66 per cent disagreed. Only 11 representing 18 per cent were neutral. According to a senior manager in Deloitte, “appropriate internal controls are extremely important for the performance of any businesses, otherwise they are open to risks of losses or failure. Only certain individuals can be signatories.” Therefore, in light of this statement, only proper personnel should have access to valuable financial information such as physical count of cash, transactions approval, logins and passwords to specific actions, otherwise, the internal control system can be manipulated or even changed resulting in unreliability and inaccuracy of the financial statements.

Regarding the software used by the company, out 62 respondents, 26 representing 42 per cent complained that the software is not completed automated, while 22 representing 36 per cent disagreed. Only 14 representing 22 per cent were neutral. On this matter, software means operating system and database that will increase or decrease the efficiency of processing. If an internal control struggles because of poor software used by the company, it will impact on the reliability and integrity of financial statements. As informed in the literature review, the “inherit risk” my increase due to the

loss of data and insider threats (employees/management manipulation). In order to assess insiders threats because of poor software, auditors are using the risk-based approach as a senior manager in Deloitte explains: “by focusing in balances that are the most likely balances to contain errors and/or fraud, the audit is carried out on more efficient manner.”

On whether staff demonstrates genuine interest in understanding needs and takes personal responsibility for meeting these needs, out of 62 respondents, 26 representing 42 per cent agreed while 20 representing 32 per cent disagreed. Only 16 representing 26 per cent were neutral. Moreover, 28 representing 43 per cent affirmed that all team members anticipates and take action to minimise risks or disruptions to care of service while 23 per cent disagreed. Only 22 representing 35 per cent were neutral. If SMEs want to succeed in Dublin, employees should understand the impact of their performance on the internal control of the company as well as management should pay attention on the performance and competence of its employees. The supervisees should be able to understand their capabilities required to meet the employment needs, work in quantity and quality in order to bring out the responsibility for the tasks assigned to them. 32 per cent who does not understand the needs of internal control can be identified as self-motivation, cultural background, salary, management performance, adaptability and flexibility, etc. 34 per cent neutral represent those who think that there are other reasons apart from employee behaviour towards to risks or disruptions to care such as poor software (company’s system), lack of manual of procedure and policies, lack of strong leadership and training. Having said that, if internal control is not performed in accordance with existing procedures and policies due to a lack of sense of personal responsibility, the impact on financial statements will be negative displaying a wrong view and values of the company. In light of this statement, the literature review offers a solution by saying that, “in order to enhance and develop their internal control system, companies are paying more attention to its employees offering courses and seminars,” to highlight their importance within the organisation.

Out of 62 respondents, 32 representing 52 per cent agreed that there is one central location to all invoices, while 8 representing 13 per cent disagreed. Only 22 representing 35 per cent were neutral. An invoice is a document that describe the transactions between buyer and seller. They are a critical element of an internal control. According to literature review, “internal control mitigates business risks,” employees may verify the accuracy of invoice to ensure they are paying correctly.

There are positive answer as per whether regular team meetings are encouraged by management. Out of 62 respondents, 35 representing 57 per cent agreed, while 17 representing 27 per cent disagreed.

Only 10 representing 16 per cent were neutral. Also, related to sufficient training opportunities provided to improve competency and update employees on policies and procedures, 29 representing 47 per cent agreed, while 20 representing 32 per cent disagreed. Only 13 representing 21 per cent were neutral. An effective internal control system is the cornerstone for proper governance and, ultimately, exceptional organisational productivity. To improve the effectiveness of internal control, management should not do it alone. Rather, encourages regular meetings to exchange ideas, establishes alignment and promotes inclusion. In addition to this, the literature review highlight how important regular meetings are for the company by saying, “managers are responsible for putting the board’s risk and control policies into action and to accomplish the board’s objectives, therefore, management should create, administer, and supervise an appropriate system of internal control.” Also, employee competence can affect the company’s internal controls effectiveness, as it depends on how well they adhere to the policies and procedures established by management and are trained.

Also, out of 62 respondents, 26 representing 42 per cent agreed that the frequency and scope of supervision and monitoring activities are appropriate to the size and nature of the entity, while 16 representing 26 per cent disagreed. Only 20 representing 32 per cent were neutral. In addition to this, on whether employees do not have to work excessive overtime or outside ordinary workweek, out of 62 respondents, 39 representing 63 per cent agreed, while 14 representing 23 per cent disagreed. Only 9 representing 14 per cent were neutral. Control activities and other planned activities as well as monitoring employees working excessive overtime to the detriment of internal control should be frequently monitored in accordance with the size of the company. Ongoing supervision and monitoring improve the design and effectiveness of internal control resulting in accurate financial statements for SMEs in Dublin. The literature review reinforce that “the effectiveness to which financial statements are presented to reflect accurate and fair data is referred to as financial statement integrity.”

Risk Assessment

In this section, out of 62 respondents, 39 per cent agreed that risk assessment have been performed recently. Employees who are unaware of the risks inherent with their occupations and their surroundings make up a significant 23 per cent of those who disagreed and 39 percent of those who were neutral. Risk assessments are crucial for any organisation. It reveal areas where internal control system is vulnerable. By performing risk assessment, management in SMEs in Dublin will assess and identify risks in order to implement preventative controls where possible as well as mitigate damages

that may impact the reliability and integrity of financial statements. A partner in EY sustains this argument saying that, “financial statements are an outcome translated in numbers and a lack of a risk assessment and solid process related to internal control will impact the reliability and integrity of financial statements.” In addition to this, the literature review explains states the importance of risk assessment before beginning audit approach, “many areas of internal control systems must be analysed, including a joint assessments of the reliability and credibility of all evidence obtained on the numerous strengths and weaknesses of key viewpoints of internal control systems, followed by the preparation of a strict assessment based on the results of such measurement.”

Also, out of 62 respondents, 40 representing 64 per cent agreed that their department has had audit/reviews (external, federal and/or local inspector general) in the last 2 years, while 6 representing 10 per cent disagreed. Only 16 representing 26 percent were neutral. Internal and external auditors regularly evaluate the design and operation of accounting controls as well as control initiatives connected to other company operations. According to the literature review, “auditors use an approach to estimate whether testing controls will enhance the audit in four steps: Step 1 – Identify Risks and Objectives, Step Two – Ascertain System and Internal Controls, Step Three – Assess the Systems and Internal Controls and Step Four – Test the Systems and Internal Controls (only if they are deemed).” Also, a senior manager in Deloitte sustains the importance of audit by saying, “the main reason for entities to be audited is to allow local and global markets to function. For entities to trade, lend, invest, they need to understand the risks involved with their economic activity and that risk can be measured where the counterparty produces financial information that is comparable, reliable and timely.”

CHAPTER V

5. Limitations, Conclusions and Recommendations

5.1.Limitations

Although the research has satisfied its aims, there were some limitations. First, the sample of participants for the interview did not reach the expected number. Auditors who work in different Big 4 audit firms have been reached out to, however, only two answered the interview. Second, due to Covid-19, the auditors from Deloitte and EY agreed to respond the interview by email rather than in person.

5.2.Conclusions and Recommendations

Internal control is a procedure carried out by an entity's management team and employees and intended to provide its users with a satisfactory degree of assurance. As demonstrated in this research, these controls are aimed at identifying errors and inefficiencies, detect issues, and ensuring that appropriated actions are taken to correct them. Our results contribute to the existing literature by demonstrating the influence of internal control on the reliability and integrity of financial statements on SMEs in Dublin. The importance of this research lies in directing the attention of management in Dublin to the integrity and reliability of financial statements.

In light of this statement, the outcomes presented on internal control environment has shown that management is setting the tone positively influencing the consciousness of its employees and comprising with integrity and ethical values of the company. For this reason, this influence will result in financial statements being prepared with reliability and integrity.

Similarly, the internal control organisational structure brought satisfactory results. Thus, it is concluded that employees are following directives implemented by the management on SMEs in Dublin.

Based on the internal control activities results, all employees that fit into the organisational picture of internal control responded positively to policies and procedures that detect and prevent the company from errors, issues, and even fraud. In addition to this, a process consisting of policies and control

procedures to assess financial statement risk will produce reliable and accurate financial statements for SMEs in Dublin.

As a final point, risk assessment in which deals with flaws and vulnerability of internal control brought positive results, therefore, areas of possible risk, weak spots, and threats are on the management radar so for the company achieve its objectives.

Since it was evident on the results of the qualitative and quantitative research on the influence of internal control on the reliability and integrity of financial statements on SMEs in Dublin, some recommendations can be drawn.

Firstly, internal control is a process planned and undertaken by the management to mitigate risks and provide reasonable assurance. It is important that all information is reliable, accurate and timely. A financial transaction analysis will impact on financial statements. Therefore, this research recommend a contentiously recordkeeping analysis in respect to the financial transactions so that all figures presented on the financial statements on SMEs in Dublin reflects a true and fair view of the company.

Secondly, it is recommended that employee retention should to be on the top of any company. An employee leaving means that the company may be failing in lack of training, engagement between management and employee, poor monitoring activities, moreover, the cost to replace a good employee is higher.

Lastly, internal control as demonstrated in this research, involves from the top to the bottom of the company. To its functionality, it is recommended that management should continuously ensure regular meetings, provide sufficient training, define a clearly line of authority within the company and a proper software so that the figures presented on the financial statements are presented with integrity and reliability to its users in Dublin.

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