EFFECTS OF SARBANES-OXLEY ACT 2002 ON THE QUALITY OF CORPORATE REPORTING BY UK LISTED COMPANIES

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Abstract

The Sarbanes-Oxley Act 2002 (SOA) was passed in the US in direct response to the spectacular collapse of Enron and subsequently Arthur Andersen, one of the then Big 5 Audit firms in the USA. We utilised institutional theory to study the extent to which UK financial reporting practices have changed by the passage of this Act by examining the corporate governance sections of selected financial reports. We examined the financial reports of 5 UK companies listed in the US and 5 UK only listed against the corporate governance introductions, internal control disclosures, audit committee disclosures, and external auditors report in the pre and post-SOA period (2000-2016) and found that whereas the UK SOA compliant companies made all the necessary adjustments to comply with the Act, the UK only listed companies also began making similar changes in their disclosures when there was no such requirement in the UK. We have observed that the standard and quantity of information provided by UK companies listed in the US in corporate disclosures has improved during the SOA period when compared to the pre-SOA period. Likewise, we have noticed a similar trend in the corporate disclosures of UK-only listed companies in the post-SOA period compared to the period preceding it. Overall, we conclude that there has been a substantial decrease in the use of generic language and boiler plateism in both sets of our sample companies' corporate and audit reports during the post-SOA period. Based on these findings, we suggest that the SOA has had a favourable impact on corporate reporting in the UK. Our research adds to the ongoing modifications to the UK Corporate Governance framework, where the Financial Reporting Council is presently adopting a UK SOx-style corporate governance system in the UK, replacing FRC with ARGA, similar to the PCAOB.

Dedication

This thesis is dedicated to some very important people in my life.

To my dear wife and great friend, Priscilla, who has been a great supporter and encourager. You have sacrificed so much in the family for me to complete this course. Thank you.

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“If I have seen further, it is by standing on the shoulders of giants”

(Sir Isaac Newton)

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Acronyms

SOA	Sarbanes-Oxley Act 2002
SOX	Sarbanes-Oxley Act 2002
PCAOB	Public Company Accounting Oversight Board
ARGA	Auditing Reporting and Governance Authority
SEC	Securities and Exchanges Commission
ADR	American Depositary Receipt
UK SOx	THE new UK Corporate Governance Regime
Form 20-F	The primary disclosure document required of foreign private issuers listing shares on the US exchanges.
FPI	Foreign Private Issuers
The Act	Sarbanes-Oxley Act 2002
ADR	American Depositary Receipts
NASDAQ	National Association of Securities Dealers Automated Quotations
NYSE	New York Securities Exchange
DOJ	Department of Justice

CHAPTER ONE

1.1 Background

In the early parts of 2002, a wave of accounting scandals broke in the US which led to the spectacular collapses of several high-profile companies in the US, notably among them, Enron, WorldCom. Europe too had its fair share of such corporate scandals in Parmalat of Italy. In direct response to the widespread public outrage following the corporate governance fiasco at Enron, the US Congress enacted legislation in July 2002, sponsored by Senators Paul Sarbanes and Michael Oxley, which later became known as the Sarbanes-Oxley Act of 2002. The primary objective of this Act was to engender faith and re-establish trust in the market by enhancing transparency in corporate governance and bolstering the credibility of corporate reporting by US-listed companies. The underlying assumption is that as governance practices improve, companies are more likely to thrive in the long term. The Act applied to all US companies (ADR Levels 2 & 3) listed on US stock exchanges, as well as all foreign companies with listings on US markets.

The main focus of this thesis is to examine the effect of this Act on the quality of corporate reporting in the United Kingdom companies that are listed on the US stock markets and then to determine, *inter alia*, whether there has been a diffusion of good (bad) practices to UK only listed companies in the post-implementation period The SOA, with its territorial reach, would have a significant impact on all the UK companies listed in the US who also have to comply with the UK corporate governance code. Wang (2009) opines that such impact is yet to be fully studied and explored in the UK.

The key objective is to examine the extent to which it (SOA) has contributed to the quality of corporate reporting practices, thereby resulting in sustained quality in the integrity of the financial reporting. Nearly two decades have passed since its enactment, and 16 years have elapsed since the mandatory implementation for all foreign-listed companies, including those from the UK. Despite this prolonged period, there is a conspicuous lack of academic research exploring the impact of the Act on UK corporate reporting. This gap in the literature constitutes a critical impetus for this study.

1.2 Justification for the Study

According to data from the Bank of New York Mellon in 2022, there are currently 2,899 Depositary Receipts (DRs) listed on major US markets. DRs refer to foreign companies listed on these markets. Among these listings, 271 DRs originate from the UK, accounting for almost 10% of the total. Consequently, the UK ranks among the largest foreign registered/listed companies in the US. Moreover, the number of UK-listed companies in the US is approximately half the number of European Union countries' listed/registered companies in the US. At the time of the Sarbanes-Oxley Act's passage, there was significant speculation in the media and political circles about its potentially negative impact on UK firms listed on US stock exchanges. The media was awash with such doomsday headlines such as UK companies "are about to revolt and quit the US stock markets in droves" (Buckingham 2006) In 2004, the Turnbull Review Group (appointed by the Financial Reporting Council, the UK's independent regulator for corporate reporting and governance) issued a position statement in June of 2005 rejecting the implementation of SOA Section 404 reporting requirements related to internal control effectiveness reporting in the U.K. Similarly, Roger

Hodgkinson, the then technical director at the Institute of Chartered Accountants England and Wales (ICAEW), wrote to the Security and Exchanges Commission (SEC) raising serious concerns with the notion of external reporting on 'control effectiveness'. Many respectable and notable business personalities also commented on it. As a case in point, Perry (2004) also quoted Sir Digby Jones, the then director of CBI as saying that between 10 and 20 major UK companies were seriously considering delisting from New York due to the perceived cost of compliance with the Act. Perry (2004) also quoted the then Chairman of BT Group, Sir Christopher Bland as saying that compliance cost to the BT Group could be as high as £10m and that BT could have delisted if it had a choice. The Accountancy Age (2004) predicted that compliance cost for UK companies could amount to more than £120m a year. In the end Lastminute.com decided to withdraw its NASDAQ listing rather than paying an estimated £1.5m compliance cost (Cunningham 2006). Describing it as "business disaster" Berlau (2004) contended that though the Act was supposed to stop corporate abuses, it will inevitably result in strangling small businesses and slow (UK) economic growth in the process.

On the political front, Lord Sharman of The House of Lords (2002) enquired if it was possible for Her Majesty Government to make representation to the US government in order to curtail the extra territorial effect of the Act on UK companies. It was opined that these UK companies will incur huge costs in order to comply with the provisions of the Act and that could cause these companies to lose a competitive edge, and if nothing is done, most of them would delist from US markets.

Understandably, few academic research papers were available, and this include the study of Read, W. J., Rama, D. V. and Raghunandan, K. (2004) who provide empirical evidence about small audit firms and changes in the market for SEC audits. Having

examined all the auditor resignations during 2000-2003. The study finds that 47 local and regional audit firms made disclosures in their Form 8-Ks filed in 2002-2003 that they were ceasing all SEC audits. On the impact of SOA on audit committee, Cohen and Brodsky (2004), said that the full impact of the SOA would not be felt until after 2005. These provide evidence that the impact that the SOA would have on companies, especially foreign companies listed in the US was a matter of speculation.

All these speculations came at a time when it was too pre-mature for anyone to make any conclusions about how the Act as no UK company had complied with it yet. What was missing though, in all these, was the voice of the shareholder or the investor: the ones the Act was passed to protect.

But the question which remains unanswered: is the motive or motives behind these hostilities on the Act from the UK? Probably the prospect of UK company executives and their auditors being hauled before the Department of Justice in the US and possibly imprisoned or fined or faced both (imprisonment and fines) at the instance of a proven corporate financial malfeasance must have sent shockwaves into the political, business community and professional bodies because there is no such requirement in the UK corporate governance code.

From the above speculations the following crucial questions can emerge:

There are many reasons why a non-U.S. company may choose to list shares in the U.S. markets: these include improved access to capital, greater liquidity, lower capital costs, heightened corporate prestige, and greater investor protection for minority shareholders that tougher U.S. securities laws imposes upon such firms (Karolyi, 1998) These tougher laws manifest themselves in enhanced disclosure of information

to the market. Although these disclosures can impose significant cost to companies, Diamond and Verrechia (1991) find that high levels of disclosure are more likely to attract investors, who are more confident that stock transactions occur at ‘‘fair’’ prices, and thereby increase the liquidity in the firm’s stock (Diamond and Verrecchia, 1991). Bailey et al. (2006) examine market behaviour around earnings announcements to understand the ramifications of the heightened disclosure that non-U.S. firms face when listing shares in the U.S. The study finds that absolute return and volume reactions to earnings announcements typically increase significantly once a company cross-lists in the U.S. as well as the fact that these increases are greatest for firms from developed countries and even for firms that pursue over the counter (OTC) listings or private placements, which do not have stringent disclosure requirements. The study further finds changes in the individual company’s disclosure environment. Senteney, Gao, and Bazaz (2014) opine that the level of communication between non-U.S. firms cross-listing securities on U.S stock markets and the informativeness of the home country’s share price is attributable to the perception that higher levels of reporting disclosure which tend to accompany listing on U.S. markets tends to attract more investors who are hoping to profit from trading on the information. These investors are seeking to earn rents from the incremental disclosures accompanying non-U.S. firms listing shares on U.S. markets. These indicate that despite its concomitant heavy disclosures, listing on the US market can send signal of confidence in investors. Bailey et al., (2006) concur with this assertion by suggesting that these costly additional disclosures which non-U.S. firms’ management chooses to incur with the decision to list securities on U.S. exchanges also tends to increase investor confidence that share transactions occur at prices formed based upon a broad and rich set of publicly available information.

1.3 Research Aims and Objectives

The main aim of this study is to examine the extent to which the Sarbanes-Oxley Act has influence UK corporate reporting, even in an unintended way. The Act was passed in the US to become US corporate governance law, which required mandatory compliance by those companies that are listed on the US major markets. Given the initial reactions in the concerning how negatively it would impact on UK companies listed on the US market, we set the following as our objectives for the study.

- To document our observations about concerning changes that have taken place in the overall corporate governance disclosures in the post SOA period.
- To understand how UK -US listed companies respond to compulsory corporate governance laws, given UK has principles-based corporate governance regime.
- To explain the reasons for corporate governance disclosure changes, especially for UK only listed companies in the post SOA period.
- To contribute to the current literature by applying institutional theoretical perspectives to explain changes in corporate governance disclosure practices in the UK post SOA.

1.4 Research Questions

The study will address the following set of questions, commencing from the main to the sub-questions.

The key question is:

Effects of Sarbanes-Oxley Act 2002 on the Quality of Corporate Reporting by UK Listed Companies

To answer this question, the following sub-questions are asked:

- To what extent has the UK corporate governance reporting changed after the SOA was passed?
- To what extent has the internal control disclosures changed after the SOA was passed?
- To what extent has audit committee disclosures changed after the SOA was passed?
- To what extent has the external audit reporting disclosures changed after the SOA was passed?

Given UK has strong corporate governance regime, further questions to ask include:

- What reasons account for UK -US listed and non-US listed companies making changes to the quality of disclosures after the passage of the SOA?

In order to address these questions, we use content analysis of annual reports of selected UK listed companies and specifically focused on corporate governance introduction sections, the internal control disclosures, the audit committee disclosures, and the external audit reports to examine the extent of changes (if any) in the way they are presented in the pre and post SOA period. These sections are chosen because of their importance to shareholders. They are the key parts of corporate governance section of annual reports which capture Sections 302 and 404 of the SOA. The only part not included in this study is the remuneration report.

1.5 Research Contribution

The SOX was passed in 2002 but it was not until 2006 that it became mandatory for all foreign-listed firms to comply with it. It is well over ten years since the SOX became compulsory for all compliant UK companies listed in the US. However, there has been

little or no academic research on how the SOX is impacting the UK-compliant companies. When the SOX was passed in 2002, there were 115 UK companies listed in the US. However, currently, 372 UK companies (10%) are listed in the US and compliant with the SOX. (Bnymellon.com, 2022). This makes the UK one of the largest single foreign registered/listings in the US. The number of UK companies listed in the US is also about half that of the combined European Union countries' companies listed/registered in the US. This goes against the grain of the initial speculations in the media and political circles that it will have a deleterious impact on UK companies listed on the US stock exchange markets. Nevertheless, thus far, very few academic studies have been conducted to establish how the SOA has impacted the quality of corporate reporting in the UK. In addition, the extant literature has been North American- oriented and often with inconclusive results and mixed findings concerning its impact on foreign-compliant companies. Furthermore, the themes emerging also from the extant literature are mostly of cost –benefits analysis and how these effects have influenced foreign-compliant companies' decision to delist or continue to list in the US (see Li 2015, Xi 2014, Arping and Saunter 2013; Xi, 2014; Hostak, 2013, Litvak 2008, 2007. From methodological perspective, most of the academic studies have employed a positivist approach to research see (Coates and Srinivasan 2014, Chia-hui, and Chia-Sheng 2012; and Stewart et al., 2009).

This study is justified on the following grounds. The UK has a corporate governance system which has been used worldwide as a model. Most corporate codes around the world are modelled on UK principles-based system since 1992 (Aguilera and Cuervo-Cazurra, 2004). Hence, it is imperative to examine the degree to which a novel corporate governance system, a rule-based law, implemented in 2002 in direct response to the downfall of Enron and Arthur Andersen, has impacted corporate

governance practices in the UK. As one of the pioneers in using institutional theoretical perspective to elucidate the transformations in corporate reporting in the UK, this study seeks to augment the existing academic and policy deliberations on UK corporate governance post-SOA. The findings will provide insight into the ongoing academic discourse on rule-based versus principles-based corporate governance systems. Furthermore, it will contribute to the public policy dialogue on corporate governance in the UK, given that the UK Government and the FRC are currently deliberating on whether to adopt or adapt a rules-based or principles-based approach to corporate governance in the UK. From a theoretical standpoint, the use of institutional theory as a framework to elucidate our findings will further enrich our understanding of how this theoretical framework can help explain managerial responses to pressure, uncertainty and legitimacy.

1.6 Structure of the Study

The thesis is structured as follows: Chapter 2 provides a literature review that comprehensively reviews key prior literature on the topic, which justifies the study. Chapter 3 discusses the theoretical framework used in the study, which is the basis for interpreting the findings. Chapter 4 focuses on methodology and methods, including research methods, techniques, research philosophy, and research design. Chapter 5 analyses selected sections of financial reports of UK companies listed in the US. Chapter 6 presents the analysis of the selected sections of annual reports of UK-only listed companies. Chapter 7 analyses the findings using the theoretical framework, providing an opportunity to view the results through the institutional theory lens, explaining the changes in selected annual report sections during the study

period. Finally, Chapter 8 offers conclusions, recommendations for future research, limitations of the study, and concluding remarks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The Sarbanes-Oxley Act 2002[1] (herein referred to as the SOA) was passed following the collapse of Enron in the latter part of 2001. The primary aim of the SOA was to enhance the transparency and accuracy of corporate reporting and improve its reliability. Consequently, most foreign companies listed on US exchanges are also obligated to comply with it. This act is considered one of the most significant regulations in US business practices since the Securities and Exchange Act of 1934 (Huang, 2009), and its effects on business operations have been profound. However, studies on its influence on foreign compliant companies have yielded conflicting results regarding its costs and benefits.

Despite being passed in July 2002, it was not until 2006/2007 that the SOA became mandatory for all foreign listed firms to comply with it. As almost a decade has passed since its implementation for all compliant UK companies listed in the US, there has been very little academic research on how the SOA is affecting these companies. In 2002, there were 115 UK companies listed in the US, but that number has increased to 298 compliant UK companies listed in the US today. This makes the UK one of the largest single foreign registered/listings in the US. The number of UK companies listed in the US is less than half the number of companies from all EU countries combined. This contradicts earlier speculations in the media and political circles that the SOA would have a negative effect on UK companies listed on US stock markets. Despite this, there have been few academic studies on how UK companies and their senior management officers are faring under the SOA. Existing literature is largely North American-oriented, with mixed findings on the impact of the SOA on compliant foreign companies. Furthermore, the literature primarily focuses on cost-benefit analyses and the effect on foreign companies'

[1] See Figure 2 in Appendix for summary of the Sarbanes-Oxley Act 2002.

decisions to delist or continue listing in the US. Most of the academic literature uses a positivist research approach, as the literature review will reveal. Examples include Li (2015), Xi (2014), Hostak (2013), Litvak (2008, 2007) for costs, and Coates and Srinivasan (2014), Chia-hui and Chia-Sheng (2012), and Stewart et al. (2009) for benefits.

Though the SOA has eleven chapters in all, two of them have had significant impact on financial reporting in US and overseas. For this reason, these chapters have elicited much attention in the literature than the rest of the nine chapters. These are sections 302 and 404.

Section 302 of the SOA mandates that both the CEO and CFO of a corporation certify that its disclosures are accurate and complete, and that its financial statements accurately reflect the entity's financial and business situation. This section, which imposes severe penalties for non-compliance or false certification, is a groundbreaking piece of legislation that holds CFOs accountable for internal controls for the first time. CFOs are now active participants in both the rewards and penalties associated with their entities, and can no longer hide behind the CEOs. This is a significant development in corporate governance. Section 404, on the other hand, deals with internal control of the entities. Section 404a requires management to assess and disclose the adequacy of internal control over financial reporting, and 404b requires independent auditors to attest to the effectiveness of these controls. Whereas others hail these as necessary steps to curb fraud and ensure investor confidence (Alexander et al. 2010), opponents assert that it imposes disproportionate cost burden on companies, especially the smaller ones (Romano, 2005). In the UK, it was a novel concept for auditors to share responsibility with management over internal control, as previously management alone was

responsible for its effectiveness. Auditors' role was limited to testing controls to ensure they were documented in the audit process. The new definition of joint responsibility requires auditors to collaborate with management to ensure effective internal controls. With a decade since its implementation, it is now important to assess how this change has influenced financial reporting, as seen through the perspective of management, the audit committee, and auditors.

2.2 Corporate Governance – A Brief History

Prior to the establishment of Cadbury Committee, the issue of board control was prevalent. Veldman and Willmott (2016) cites the British Institute of management (1970) report which indicated that British companies lacked sufficient controls, and that the directors were either unable or unwilling to remove those responsible for failures. Corporate governance framework development in the UK takes place outside the legislative process in the pre-SOA period. This began with the Cadbury Report (1992), which led to the development of the set of guiding principles underpinning the UK governance framework. However, this was sponsored by the London Stock Exchange, the Confederation of British Industry, the Accountancy profession, as well as other professional bodies. Known as the Cadbury Report (1992), this mainly placed the emphasis on the financial aspect of corporate governance. However, it also provided the basic framework, the foundation upon which future principles would be developed. After 1992, a series of events led to the Greenburg Report (1995), the Hampel Report (1998) and the Turnbull Report (institute of Chartered Accountants 1999). All these developments took place outside the direct control of Parliament. In 2000, the initial version of the Combined Code for corporate governance was released, consolidating previous reports into a single source of reference for UK corporate

governance. The code was integrated into the listing regulations of the London Stock Exchange and implemented on a "comply or explain" basis, reflecting a market-driven approach that did not mandate compulsory compliance. Following the publication of this code, two subsequent versions were introduced. These included The Smith report (2003), which considered the audit committee, and the Higgs Report (2003), which reviewed the role and effectiveness of non-executive directors (NEDs). These two were combined to form the Combined Code (2003), also referred to as the Code. Fasterline (2006) reports that the UK model of corporate governance was the first to combine an advisory code of best practices with legally binding disclosure obligation when the Cadbury Report was linked to the UK financial regulation.

In contrast to the UK, the US enforces mandatory compliance for corporate governance rules, which also applies to foreign private issuers (FPIs) listed in the US. Venulex (2008) outlines the requirements that FPIs must disclose significant differences in corporate governance practices, as well as any changes and disagreements with their certifying accountants. These differences highlight the challenges faced by UK companies listed in the US due to the perceived inflexibility of the rules compared to the UK's comply or explain basis. However, some studies suggest that the market responds positively to the strict compliance regime of US corporate governance. Toms and Wright (2005) argue that UK companies performed poorly in productivity compared to international competition compared to US firms. They cited evidence from other studies indicating that performance improvements in both countries since the 1980s were linked to changes in governance and accountability structures. Even though the US and the UK enjoyed different comparative advantages in the earlier period, the US's basis was equally successful as the UK.

2.3 Principles Based Versus Rules Based Corporate Governance Frameworks

The US and UK have different frameworks of corporate governance. These are often shortened as principles -based (UK) versus rules based (US). The UK principles-based framework provides flexibility for management in making disclosures in the annual reports. It allows the management to document a compliance or explain why they are not complying with any of the provisions. There have been numerous studies highlighting the importance of adopting a principles-based approach to corporate governance. The Financial Accounting Standards Committee (2003a) is one such advocate of this approach and suggests that it is preferable to a rules-based system, despite acknowledging some challenges associated with the principles-based model. Hann et al. (2007) share this view and argue that the advantages of having flexible accounting guidance, such as providing additional valuable information, outweigh the potential costs of opportunistic manipulation.

The principles-based approach to corporate governance relies heavily on the professionalism and goodwill of both management and auditors. However, it can be challenging to define and enforce these qualities without clear guidance. According to Nelson (2003), a principles-based approach is preferable to a rules-based approach because imprecise rules can lead to accurate and conservative financial reporting, while strict rules may encourage management to prioritize form over economic substance. This view is supported by Jamal and Tan (2010), who found in an experimental study that a principles-oriented auditor focuses on the economic substance of transactions rather than simply following the rules.

The results indicate that the auditor type does not affect the likelihood of reporting off-balance sheet transactions under a rules-based standard. However, under a

principles-based standard, the auditor type matters, as the likelihood of such reporting is lowest when the auditor is principles-oriented rather than rules- or client-oriented. The researchers concluded that improved financial reporting quality through a move towards more principles-based standards is only possible if auditors adopt a more principles-oriented mindset. This finding is important for our study as we investigate how the shift towards a rule-based system of corporate governance has influenced the mindset of UK corporate management, including those not subject to the SOA. It would also be interesting to see if the compulsory compliance regime of the SOA has influenced the UK regulatory authority, such as the Financial Reporting Council, to consider making changes to the UK corporate governance framework.

However, comply or explain principles-based approach is also fraught with risk taking by management. Hoffman et al., (2021) examined how the stock market's responds to events leading up to the Securities and Exchange Commission's and Public Company Accounting Oversight Board's 2007 regulatory changes that reduced the scope of and documentation requirements for assessments of firms' internal controls over financial reporting (ICFR), as required by the Sarbanes-Oxley Act, Section 404. The study identified two significant findings. Firstly, investors believe that regulations could harm financial reporting quality more than it could improve it. Secondly, negative market reactions are more significant when the effectiveness of internal control over financial reporting is crucial, particularly in cases of high complexity, increased litigation risk, and greater potential for fraud. As a result, the study suggests that investors prefer stronger government regulatory intervention concerning internal control over financial reporting. Additionally, in a separate study, Nobes (2005) identified six accounting topics where technical rule-based guidance is required due to either the absence of appropriate principles or inconsistency with higher accounting principles.

In a similar vein, Ahmed et al.'s (2021) study on the effects of non-compliance with various provisions of the UK Corporate Governance Code, which operates on a principles-based approach, finds there are varying levels of risk taking associated with non-compliance, and that these effects are not uniform across all provisions. Specifically, non-compliance with board independence provisions is associated with high risk taking, while non-compliance with committees' chair independence is associated with lower risk taking. Although the study identified non-uniformity in the effects of non-compliance, the existence of identifiable levels of risk taking associated with the principles-based corporate governance framework can pose challenges to stakeholders. This view is also shared by Ashbaugh-Skaife et al (2009) who find that companies reporting non-compliance with the comply or explain system of corporate governance present much information risk to investors given that they are perceived to be risky. In a similar vein, Hu, Li et al., (2020) also argue that company board reforms which aim at reducing financial transparency reduce crash risk. These lead Ahmad et al., (2021) to conclude that companies which choose to abide strictly with the UK corporate governance comply or explain regime are likely to be perceived as risky by investors. The study of Ulah et al. (2020) finds that the UK "comply or explain" index is positively associated with the market valuation of UK firms, thus suggesting that compliance and quality of governance disclosure are value relevant in the UK.

The SOA requirements are a matter of law and company directors have very limited choices in the matter of compliance. The SOA dictates how management must run their business and how accounting professionals such as auditors must conduct the audits of financial information. In a clear departure from the prior principles-based approach, the SOA created an accounting oversight body called the Public Company Accounting Oversight Board (PCOAB). This body has the mandate to establish

auditing, quality control and independence standards and rules for auditors and accountants. This regulation changed disclosure and reporting requirements and aims to increase trust of the investors in capital markets again, after facing several balance and accounting scandals between the years 2000 and 2002, for example, at Enron and WorldCom (Leech and Leech 2011). The two most important sections considered to be having a high impact on the corporate governance of complying firms across the world are Section 302, 'Corporate Responsibility for Financial Reports, which requires management to assess whether firms' financial reports represent the true financial situation and operations for the period under consideration. Management is required to design, establish, and maintain internal controls and evaluate their effectiveness, disclosures of internal controls deficiencies (SOX, 2002, Section 302). Then there are SOX 404 - 'Management Assessment of Internal Controls'. This section requires both management and their external auditors to report on the reliability of management's assessment of internal control every fiscal year. Leech and Leech (2011) suggest that the SOA 2002 will result in significantly more reliable financial statements, reduce long-term Section 404 compliance costs, and restore global confidence in US corporate governance and capital markets, among others. The aim of SOX 302 and 404 is to improve internal controls, and to reduce opportunistic behaviour of executives. The debate on rules-based versus principles-based corporate governance continues, but it is undeniable that the SOA has had a significant impact on how businesses operate. It has instilled a sense of responsibility and accountability, with a particular focus on financial controls, which was not present before (Marchetti, 2005). This is a stark contrast to the UK's principles-based comply or explain corporate governance system.

2.4 SOA and Financial Reporting Quality

The quality of financial reporting can be interpreted in different ways, but the SOA has approached it from an ethical perspective due to the role that weak ethics played in the collapse of companies such as Enron and WorldCom. Section 406 of the SOA requires companies to disclose whether they have implemented a code of ethics for top executives and, if not, to explain why not. This code of ethics is not just a formality, but it requires management to establish high standards to prevent wrongdoing and promote a culture of honesty and ethical conduct. This includes handling conflicts of interest between personal and professional relationships in an ethical manner. Additionally, the code must mandate officers to ensure full, fair, accurate, timely, and understandable disclosure in reports and documents filed with the SEC (Bainbridge, 2007). The ethics code should also require personal and corporate compliance with applicable regulations and provide for prompt internal reporting of violations to the appropriate person or persons identified in the code. This requirement aims to ensure that management takes financial reporting disclosure seriously. The code must be filed with the SEC as an exhibit to the company's annual report and made available on the company's website.

2.5 Summary of SOA - Sections 302 and 404

Issuers must publish information in their annual reports concerning the scope as well as adequacy of the internal control structure and procedures for financial reporting. This statement shall also assess the effectiveness of such internal controls and procedures.

In their annual report, companies that meet the accelerated filing requirements of the Securities and Exchange Commission including foreign private issuers (FPIs) are

required to include, beginning with year ends on or after July 15, 2005, an internal control report from management that contains:

• A statement acknowledging management's responsibility for establishing and maintaining adequate internal control over financial reporting for the company

• A statement identifying the framework used by management to conduct the required evaluation of the effectiveness of the company’s internal control over financial reporting

Section 404

Management must evaluate the efficiency of its internal control over financial reporting at the end of the latest fiscal year and provide a statement that indicates whether or not the control is effective.

The assessment must include disclosure of any “material weaknesses” in the company’s internal control over financial reporting identified by management. If there are one or more material weaknesses in the company’s internal control over financial reporting, management is not permitted to conclude that the company’s internal control over financial reporting is effective.

• A statement that the registered public accounting firm that audited the financial statements included in the annual report has issued an attestation report on management’s assessment of the company’s internal control over financial reporting.

Sections 302, 404, and 406 of the SOA introduce a new level of corporate responsibility that requires management to deeply consider corporate disclosures and decisions. These regulations are expected to result in higher quality corporate reporting. The code of ethics mandated by section 406 should ultimately improve

internal governance. A study by Cheng, Lee, and Terry (2016) find that the impact of internal governance is more significant for companies with more complex operations, where key subordinate executives play a more significant role, and is further strengthened when CEOs have less power. However, the effect is weaker when there is a high level of capital markets benefit from meeting or exceeding earnings benchmarks and is more pronounced in the post-SOX period.

Whereas the requirement s of the SOX 404 is clear, the section remains nebulous on what constitutes material weaknesses in entities internal control over financial reporting. Given that the disclosures of such material weaknesses provide expression to the effectiveness or otherwise of an entity's ICFR, we shall depend on external sources for help. These sources include Moody, Fitch, and Financial Executives international (FEI).

Moody's Investors Service released a special report in 2004 entitled Section 404 Reports on Internal Control: Impact on Ratings Will Depend on Nature of Material Weaknesses Reported. In this report, Moody's examined the potential impact of material weaknesses on a company's rating in the following categories.

Category A - Controls over specific account balances

Category B - Company-level controls such as the control environment and the financial reporting process.

According to Deloitte, Moody's, in its report, stated that it would give companies that disclose 'Category A' material weaknesses "the benefit of the doubt and not take any related rating action, assuming management takes corrective action to address the material weakness in a timely manner."

However, regarding Category B material weaknesses, it stated that it “may result in us bringing a company to rating committee to determine whether a rating action is necessary.” This is due to Moody’s belief that “Category B material weaknesses call into question not only management’s ability to prepare accurate financial reports but also its ability to control the business.”

Similarly, in January 2005, Fitch Ratings released a report entitled ‘Sarbanes-Oxley 404 — Fitch’s Approach to Evaluating Management and Auditor Assessments of Internal Controls’. In its report, Fitch Ratings went even further from Moody’s position and Section 404 requirements by introducing a phrase ‘*existence of significant deficiencies’.* Although the disclosure of existence of significant deficiencies is not required to be reported on Form 10K, it claimed that such controls weaknesses should be considered and may have implications on ratings. As a result, that it would ask companies about *the existence of such significant deficiencies.*

Although the studies discussed earlier were not conducted with funding or sponsorship from the SEC or PCAOB, this study believes that they are still valuable in providing clarity and addressing gaps in the SOA's treatment of material weaknesses. Therefore, in examining the impact of SOA 404 on UK compliant companies, we will also consider disclosures of both material weaknesses and significant deficiencies. This will require examining written reports published by management, which should be publicly available on reporting entities' websites. This approach justifies the method of data collection.

Section 404 of the Sarbanes-Oxley Act mandates that management assess whether the internal control system in place provides reasonable assurance that material errors

in the interim or annual financial statements will be prevented or detected. Management can make this assessment by:

1. Identifying, assessing, and testing the design and operating effectiveness of the key controls that will either prevent or detect material errors in the transactions that constitute the balances in significant accounts in the financial statements, or in the manner in which the financial statements are prepared and presented.

2. Assessing whether any control deficiencies identified in the above process represent, either individually or in aggregate, a reasonable possibility of a material error (i.e., a material

2.6 Responsible Persons under 302 and 404

The SOA clearly defined responsible persons who are accountable for actions and decisions taken in listed companies in sections 302 and 404. Sections 302 of Sarbanes-Oxley make it clear that those certain key management personnel—specifically the CEO and CFO —are responsible for the adequacy of internal controls. The certification by these officers required by Section 302 states that: “the signing officers — (a) are responsible for establishing and maintaining internal controls. (b) Have designed such internal controls to ensure that material information relating to the issuer and its consolidated subsidiaries is made known to such officers by others within those entities, particularly during the period in which the periodic reports are being prepared. (c) have evaluated the effectiveness of the issuer’s internal controls as of a date within 90 days prior to the report (d) have presented in the report their conclusions about the effectiveness of their internal controls based on their evaluation as of that date.” (theiia.org). Section 302 of the Sarbanes-Oxley Act is not simply a procedural formality. It mandates that in instances where a reporting company files its

quarterly or annual report, both the CEO and CFO must personally attest that they have reviewed the report and that, to the best of their knowledge, there are no material misrepresentations or omissions of material facts in the report. Additionally, both the CEO and CFO must certify that, to the best of their knowledge, the financial information included in the report accurately reflects the company's financial condition and operating results for the period in question, in all material respects. Bainbridge (2007) cites Professor Cunningham as stating that certification requirements, such as attesting to compliance with regulations and accurate presentation of results, have always been a part of federal laws. However, CEOs and CFOs are singled out to make these certifications and are often named as defendants in private securities lawsuits and SEC enforcement actions. The SOA has introduced a new emphasis on corporate responsibility and accountability. Prior to the SOA, UK and US corporate governance frameworks emphasized collective responsibility by referencing the board. For example, the UK combined code stated the following on reporting on internal control

> *"The board should at least annually, conduct a review of the effectiveness of the groups' system of internal controls and should report to shareholders that they have done so." (PCAOB.org. CC C.2.1).*

The aforementioned recommendation for internal control in the UK corporate governance code, which is an improvement on the original Cadbury Code, falls short of the requirements of Sections 302 and 404 of the SOA. The UK code only requires a review of financial control and active involvement of senior management, without naming a responsible person, and only requires evidence of a "review" and a report to shareholders. In contrast, the language and recommendations in the US SOA place responsibility and accountability on the CEO and CFO, who can both be named as defendants in case of litigation. This presents a challenge for UK companies listed in

the US to comply with the disclosure requirements of Sections 302 and 404. Sections 302 and 404 focus on how compliance changes the tone at the top. The tone of executive management, according to Marchetti (2005) will drive the success of compliance efforts.

In addition to the CEO and CFO certification, they must certify and disclose to the auditors and to audit committee that all significant deficiencies in the design and operations of internal controls as well as any material or immaterial fraud etc. relating to management or other employees who have significant role is internal control (Garner, McKee, and McKee, 2007)

The Institute if Internal Audit (Theiia.org) explains that whereas the CEO, including the senior management team, will depend on CFO for overall leadership and accountability for financial reporting, under SOA disclosure controls, other parts of the organization do have a significant part to play. According to Bainbridge (2007), the SOA has shifted the responsibility for the system of internal control in an organisation from a single executive to a shared responsibility among all executives. This is usually led by the CFO. The purpose of this shift is to prevent a situation where the CEOs and CFOs can claim ignorance of fraudulent activities, as was the case in the Enron scandal, where many senior executives testified before Congress that they were not aware of underlying financial fraud due to the size of the organization.

The audit committee of the board of directors has a significant role in a company's system of internal control, which it performs on behalf of the full board and ultimately, the shareholders. Both management and the external auditor are required to consider the effectiveness of the audit committee as part of their assessments of ICFR. COSO refers to the role of management as being accountable to the board of directors, which

provides governance, guidance, and oversight. Effective board members are objective, capable, and inquisitive. Management also has knowledge of the entity's activities and environment, and commit the necessary time to fulfil their board responsibilities.

Gupta, Sami, and Zhou (2016) find that the information environment improves for companies in the US after the publication of management's report on internal control per Section 302.

2.7 Economic Impact of SOX

In the past two decades, there have been numerous academic research studies evaluating the economic impact of SOX on compliant firms with mixed and often conflicting conclusions. Significantly, the majority of these studies used the positivist perspective to evaluate it. (See Li 2015, Xi 2014, Arping and Saunter 2013; Xi, 2014; Hostak, 2013, Litvak 2008, 2007 and Coates and Srinivasan 2014, Chia-hui, and Chia-Sheng 2012, Stewart et al., 2009). Even though the SOX has Eleven Chapters (see Fig.2), the Sections which has received most attention in the literature are Sections 302 and 404. These Sections require management the CEO and CFO in addition to their external auditor to report on the adequacy of a company's internal control on financial reporting whilst certifying the financial statements. Western European countries, which generally enjoy better governance, expressed the strongest resistance, most notably from the UK.

Litvak's (2007) research compared the responses of foreign companies exposed to the SOX with those of similar foreign companies that were not exposed to SOX. This allowed for an examination of investor beliefs about the costs and benefits of SOX that is not easily achievable through studies conducted in the US. The study found that

foreign companies subject to SOX experienced significant declines or increases in stock prices during key announcements indicating whether SOX would fully apply to cross-listed issuers or not. This was compared to non-cross-listed firms and cross-listed firms not subject to SOX. Cross-sectional analysis showed that firms with higher levels of disclosure and from countries with high levels of disclosure experienced the greatest declines, while faster-growing companies experienced weaker declines. These findings support the perception among investors that the Sarbanes-Oxley Act has negative effects on foreign companies listed in the US, particularly companies with low growth and those from relatively poorer countries. Because SOX applies to all US public companies, it is challenging for US-based studies to separate the effects of simultaneous events. However, controlled analysis is available:

Lobo and Zhou (2010) examine how SOA was impacting on the extent of aggressive versus conservative corporate reporting behaviour of listed companies' executives. SOX imposes considerably greater potential penalties on chief executive officers (CEOs) and chief financial officers (CFOs) who engage in financial wrongdoing. The study was based on the assumption that risk-averse managers are likely to report lower earnings by reducing discretionary accruals following SOX. The researchers used a matched sample of Canadian firms listed in both the US and Canada to compare the post-SOX financial reporting behaviour of firms subject to SOX with those that were not. The study found that firms subject to SOX were more conservative in their financial reporting in the post-SOX period, as evidenced by lower signed discretionary accruals.

2.8 Costs of Compliance

Li, (2014) examines the short- and long-term impact of the 2002 Sarbanes–Oxley Act (SOX) on cross-listed foreign private issuers. Using data from 1995-2006, both short- and long-term test results suggest that the costs of SOX compliance significantly exceed its benefits and reduce the net benefits of cross-listing

Arping and Saunter (2013), in a study of EU firms, which eliminated UK companies due to its size, find that cross-listed EU firms experienced a much stronger reduction in opaqueness after S404 compared to U.S. A recent SOX compliance survey by Proviti (2015)[2] found that 58% of large organisations respondents spent $1m or more on SOX compliance matters, excluding external audit related fees

Litvak's (2008) study compared the impact of SOX on compliant companies from different corporate governance jurisdictions and concluded that SOX had a negative impact on cross-listed premia, especially for riskier firms and firms from well-governed countries, while potentially helping high-growth firms from poorly governed countries.

The UK is considered to be one of the well governed countries, and therefore, it is inferred that the findings of Litvak (2008) are consistent with the earlier anecdotal evidence that the SOX will hurt UK companies compliant in terms of costs and render then uncompetitive.

Similarly, Litvak (2007) also used natural experiment to examine the effect of SOX on non-US firms by comparing reactions of SOX-exposed foreign firms to reactions of otherwise similar SOX- unexposed foreign firms. As per the findings, stock prices of foreign firms subject to SOX declined (increased) significantly, compared to cross-listed firms not subject to SOX and to non-cross-listed firms, during key announcements indicating that SOX would (would not) fully apply to cross-listed

[2]

issuers. It also finds that high-disclosing firms and firms from high-disclosing countries (for example UK), experienced the strongest declines. On the contrary, faster-growing companies experienced weaker declines.

2.9 Benefits of Compliance

Chia-Hui and Chia-Shen (2012) find that greater board independence and increased disclosure transparency significantly improved post-SOX performance among cross-listed foreign registrants. However, increased board size was not found to make a positive contribution to firm performance. In similar vein, the study of Chang, and Sun (2009) finds a significant change in the relationship between earnings informativeness (earnings management) and corporate governance, which suggests that the SOX improves the effectiveness of cross-listed foreign firms' corporate-governance functions in monitoring the quality of accounting earnings.

There is also the evidence that the SOX is improving entities' internal control systems. Huang (2009) investigates the changes in US traded firms' internal control reporting and finds that both US-traded foreign firms from developed countries experienced a descending trend in material internal control weakness (ICW) from 2004-2006. The study maintains that while the SOX imposes compliance costs on US-traded foreign firms, investors can benefit from improved internal control over financial reporting and therefore improved final reporting quality.

Li (2008) proposes that the implementation of vox-ticking in corporate governance structures by companies during the post SOA era did not lead to the desired outcome of better financial reporting quality. However, it did result in an increase in corporate value for some companies. The research also shows that the effectiveness of audit committees decreased before the SOA period but improved afterwards, indicating that

the SOA was advantageous to shareholders in terms of corporate governance due to the improved effectiveness of audit committees..

2.10 Delisting Effects

Hostak et al. (2013) conducted a study to investigate if voluntary deregistration among foreign firms after the implementation of the Sarbanes-Oxley Act of 2002 (SOX) was a strategy to avoid compliance costs, and whether it benefited common shareholders. The study analysed data from 1997 to 2006, and found that foreign firms that voluntarily deregistered had weaker corporate governance and a less negative market reaction to SOX's passage. However, they suffered a significant price decline when they announced their decision to deregister. The study also found that compliance cost was the primary reason behind the decision of many foreign companies to delist from the US. It should be noted that the study's findings were based on pre- and post-SOX data and were conducted before it became mandatory for foreign firms to comply with SOX in July 2006. Therefore, it may be necessary to conduct further research to determine whether these findings still hold after more than ten years since the implementation of SOX. Similarly, Chaplinsky and Ramchard (2012) find that companies that delisted from the US in the post SOX period also had low benefits from listing in the first place and may come from countries with strong home governance regime, such as the UK. Their findings appear to lend credence to the initial anecdotal evidence that UK companies will delist en-mass from the US markets due to the SOX stringent requirements. However, the actual picture of UK listing, and delisting activities paint a different picture: Whilst there were 115 UK companies listed in the US market at the start of the SOX, today there are 372 companies.

2.11 Impact on Audit Committee

If there is ever an epitaph to lay in memory of the SOA and how it has influenced corporate governance around the globe, then it will have to be its emphasis on the audit committee's role in corporate governance history. The Sarbanes-Oxley Act (SOX) and its associated regulations significantly expanded the oversight role of audit committees and improved independence, but regulators bypassed restrictions on audit committee equity incentives. Examining the link between audit committee members equity incentives and the quality of financial reporting, Campbell et al. (2015) discover that stock-option awards and holdings given to audit committee members were positively correlated with meeting or exceeding analyst earnings forecasts. These findings suggest that, even after the SOX period, offering incentives like share options to audit committee members can directly contribute to diminished financial reporting quality.

Mikhail's (2020) studies how audit committee expertise influences key internal control scoping decisions of firms, by examining whether audit committee expertise is associated with the deferral of internal control testing for acquired firms. The study finds that audit committees with greater specialized expertise (industry and legal) are less likely to opt-out of first-year target internal control over financial reporting (ICFR) integration and that targeted ICFR integration provides an indirect path using which industry and legal expertise reduce the likelihood of misstatement.

HassanElnaby et al. (2007) examine the oversight responsibilities of audit committees in the post Sarbanes-Oxley Act of 2002 (SOX) era. According to the findings of this study, audit committee oversight responsibilities assigned and disclosed in proxy statements expanded post-SOX compared to pre-SOX. By means of a survey

instrument, the study finds that although audit committees made a substantial commitment to increase their assigned responsibilities over the period of 2001 to 2004, they needed to other things in order to meet the additional challenges facing them in a post-SOX environment. The results of this study suggest that the intent of SOX—that is, for the audit committees to be more involved and active in the oversight role of an organization—is becoming a reality.

2.12 Audit Committee Financial Expertise

Governance regulators currently place great emphasis on ensuring the presence of financial expertise on audit committees (Sarbanes-Oxley, 2002; UK Corporate Governance Code 2010–2016). SOA Section 407 requires companies to disclose whether they have at least one financial expert sitting on the audit committee. In addition, when the position is vacant, companies must disclose the fact and the reason for the financial expertise absence (SOA 2002). In the initial proposal, the SOX classified only direct accounting and auditing experience of audit committee members as financial expertise. Ghafran and O'Sullivan (2017) examine the impact of audit committee expertise on audit quality, specifically looking at the audit fees paid by FTSE350 companies. As per their findings, audit committees with more financial expertise tend to pay higher audit fees. Another finding of this study is that expertise is more valuable in smaller listed firms, where specific financial reporting challenges may require specialized knowledge. Meanwhile, Das, Gong, and Li (2020) observe that having an accounting expert on the audit committee can improve financial reporting quality and mitigate the negative effects of restatements.

On the question of how financial expertise member of audit committee impacts the quality of information disclosed, Lee and Park (2016) examine whether the financial

expertise of audit committees affects the quality of textual information conveyed through the management discussion and analysis (MD&A) section of corporate annual reports. They find that audit committee financial expertise, especially those with accounting qualifications, tames managerial opportunism in the form of upward management of MD&A tone. Moreover, it finds that the effect of the financial expert is even more pronounced in instances where the audit committee is more powerful or when the committee member face higher litigation risks. In a study to examine whether the perceived independence and financial expertise of audit committee members affect external auditors' exposure to legal liability, Alderman and Jollineaux (2019) find that perceptions of audit committee independence from management are positively associated with judgments of auditor independence and negatively associated with auditor liability. Regarding auditor liability, the study finds that judgments of auditor liability are *higher* when the audit committee is perceived to have higher financial expertise but lower independence from management. With regard to the risk of litigation of current and prospective clients, the study suggests that the auditors should carefully consider the independence of audit committee members, particularly the independence of audit committee members from management. Hsu, Moore and in support, Neubaum (2018), find that although both accounting experts and non-accounting financial experts on the audit committee contribute to the committee, financial experts on the audit committee tend to play both the role of defenders and monitoring for prospectors.

In a similar vein, the study of Bilal and Bushra (2017 reveal that the financial expertise of the audit committee has a positive relationship with earnings quality, that accounting financial experts have a stronger relationship with earnings quality than non-accounting financial experts, and that corporate governance systems, International

Financial Reporting Standards (IFRS), and SOX moderate the relationship between the aforementioned financial expertise and earnings quality.

Hoitash et al. (2009) examine the association between corporate governance and disclosures of material weaknesses (MW) in internal control over financial reporting. The study made the following findings- audit committee with members who have more experience are less likely to disclose section 404 material weakness. According to the study's conclusion, the board and audit committee characteristics are linked to internal control quality. However, this association can only be observed under a more stringent requirements of Section 404.

2.13 Impact on Internal Controls

Internal control over financial reporting has gained much currency in the post SOA period. In general, internal control plays the role of the first line of defence for public companies in not only safeguarding assets but also preventing and detecting errors and fraud. The Public Company Accounting Oversight Board defined it as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with laws and regulations. Internal control over financial reporting is further defined in the SEC regulations implementing Section 404 of the Sarbanes-Oxley Act. Prior to the implementation of the SOA, CFOs, CEOs, and chief auditors tended to focus on value-added activities, such as top-line initiatives, among others (Marchetti, 2005). However, since the passage of the SOA, internal controls, which were previously considered secondary, have become a primary concern for corporations. Section 302 of the SOA specifically emphasizes disclosure control

procedures and the personal accountability of management personnel who sign them. This section requires the CEO and CFO to personally confirm the accuracy and reliability of the financial information being made available to the public. Internal controls are critical to all transactions, and it is presumed that the more effective they are, the more reliable financial reports will be. But the SOA placed the agency of the monitoring of internal controls on management by requiring them to personally sign off section 302 disclosures. When the CEO and CFO sign a financial report, they are indicating that they have personally reviewed the report and that to the best of their knowledge, the information contained within it is accurate and not misleading. By signing the report, they are stating that they have no knowledge of any falsehoods or misrepresentations. The UK Combined Code of Corporate Governance (UKCCGC) provides guidance on internal controls, stating the importance of establishing and maintaining a sound system of internal control to safeguard shareholders' investments and the company's assets.

> “The board shall at least annually conduct a review of the effectiveness of the group’s system of internal controls and should report to shareholders that they have done so. The review should cover all material controls including financial, operational and compliance controls and risk management systems (CC C.2.1)

This recommendation goes much further than the previous Cadbury Code which recommended management to review financial controls as well as the involvement of senior management. Nonetheless, the SOA imposes more rigorous demands for the disclosure of internal controls. The significance of internal controls in financial reporting is emphasized by Congress's allocation of two specific sections, 302 and 404, to this topic. Section 302 pertains to disclosure controls and procedures as well as personal accountability of signing officers. The signing officers, unlike the UKCC,

are named as the CEO and CFO, both of which must take personal and collective accountability for the matters of material disclosures.

Tadesse and Murthy (2021) investigate whether the format of internal control weakness (ICW) disclosures required by the Sarbanes-Oxley Act of 2002 influences perceptions of nonprofessional investors. The study further finds evidence of moderated mediation such that high prominence of ICW disclosures has a positive indirect effect on investing judgments through management trust Nagy (2010) examines whether the Sarbanes-Oxley Act Section 404 S404 compliance endeavours lead to higher quality financial reports. The study reveals a substantial and adverse correlation between compliance with Section 404 (S404) and the issuance of materially misstated financial statements. This indicates that the S404 regulation is fulfilling its purpose of enhancing the quality of financial reports. The research also demonstrates that complying with Section 404 lowers the possibility of publishing materially misstated financial statements. The findings strongly suggest that the S404 regulation is successfully achieving its goal of improving the quality of financial reports.

Aier et al. (2005) investigate whether the characteristics of chief financial officers (CFOs) are associated with accounting errors (using accounting restatements as a proxy). They study concludes that companies whose CFOs have more work experience as CFOs, M.B.A.s, and/or CPAs are significantly less likely to restate their earnings. The study of Schroeder and Shepardson (2016) addresses whether SOX 404 (b) internal control audits under two auditing standards regimes and SOX 404(a) management assessments are associated with improved internal control system quality, an important and largely unstudied potential benefit. As per the findings of this study, internal control audits initially

provided internal control quality benefits and there is limited evidence that management assessments affect internal control quality. It concluded that PCAOB the concerns raised by PCAOB might are not devoid of merit.

Altamuro and Beatty (2010) examine the financial reporting effects of the Federal Depository Insurance Corporation Improvement Act (FDICIA) internal control provisions. More pronounced effects in interim versus fourth quarters suggest that greater auditor presence substitutes for internal control regulation. In their study, Ashbaugh-Skaife, Collins, and Kinney (2007) examine the economic factors that expose companies to control failures and management. The researchers assess internal control deficiency disclosures made before the mandated internal control audits. According to the findings, companies that disclosed internal control deficiencies were more likely to have complex operations, recent organizational changes, greater accounting risk, more auditor resignations, and fewer resources available for internal control compared to non-disclosing firms. In terms of motivations for discovering and reporting internal control problems, the study finds that firms with internal control deficiencies were more likely to have prior SEC enforcement actions and financial restatements, use a dominant audit firm, and have more concentrated institutional ownership.

Ge and McVay (2005) examine a sample of 261 companies that are disclosing at least one material weakness in internal control in their SEC filings after the effective date of the Sarbanes-Oxley Act of 2002. They use the descriptive material weakness disclosed by management to find that inadequate commitment of the necessary accounting control resources leads to poor internal control. The study also highlights some reasons for material weaknesses in internal control including deficient revenue-

recognition policies, lack of segregation of duties, deficiencies in the period-end reporting process and accounting policies, and inappropriate account reconciliation.

Paletta and Alimehmetti (2018) study how internal control systems impact organizations and find that internal control systems explain a significant amount of executive and CFO compensation, after controlling for other governance, executive personal characteristics, firm, and macroeconomic determinants of pay. The study concluded that companies that have weak internal control systems also have greater agency problems and, consequently, greater levels of executive compensation.

The PCAOB (2004) has said that the reliability of financial reporting is a function of the entity's internal controls, thereby emphasizing the importance of the regulatory reforms under the SOX. The significance of internal controls in financial reporting is well documented (Hermanson, 2000). However, prior literatures have been unable to furnish evidence to attest to the linkage between internal controls and the reliability of financial reporting. We deliberately perform extensive survey on the state of internal controls research after SOA, given that the focus of the importance of internal controls in the overall governance regime in organisations and that fact that the SOA Sections 302 and 404 had attracted so much attention after its passage.

Ashbaugh-Skaife et al. (2008) set out to examine the linkage between internal controls and financial reporting. Using a data obtained from Compliance Week and Glass, Lewis & Co., LLC and Audit Analytics, from 2003- 2005, they identified firms that disclosed at least one internal control deficiency between the periods. As per the findings of this study, the firms that received internal control audit opinions in successive years demonstrated improvement in accrual quality reporting congruent

with changes in the quality of internal controls. Consequently, they concluded that there is a strong case to be made: and that is, internal controls affect accrual quality.

In a related study, Singer and You (2008) examine the extent to which section 404 of the ACT has impacted on earning quality, from Canadian firms‟ perspective between 2001 to 2002, 2002-2003, and then between 2003-2005. They study 263 Canadian firms who chose to comply with the Act immediately after implementation and 1620 other firms who did not comply until later. They found that complying firms improved their reporting quality in the post Section 404 period in contrast to those groups who were listed on the US markets but chose not to comply. They also found that there was marked reduction in intentional misstatements post 404. Overall, the study provides strong evidence that the implementation of Section 404 has contributed to achieving the ACT's main goal of protecting investors by enhancing the accuracy, reliability, and integrity of financial reporting (Donaldson 2005).

Chan et al. (2008) undertook a study to examine if firms reporting material control weaknesses under Section 404 have more earnings management in comparison to other firms, using a sample of 1057 firms (149 firms with internal control weaknesses (ICW); and 908 non ICW firms but meeting their selection criteria). The study found that there was mild evidence of positive and absolute discretionary accruals for firm reporting material internal control in comparison to others. They concluded that this Section of the ACT has the potential of minimising opportunistic intentional and unintentional accounting errors since the discovery of ICW by auditors under section 404 may cause firms to improve their internal controls, thereby improving the quality of financial reporting. This development assumes significance, not least because of the human element of the internal control processes. AS 78 of the US Auditing Standards highlights the significance of human failures, which can occur as either

simple mistakes or management overrides of controls, and emphasizes their potential negative impact on financial reporting. If left unchecked, these errors and overrides could cause harm to the integrity of financial reporting. However, the combined effect of Section 404a and 404b is that such human errors and oversights would be greatly minimized. Auditors are more likely to detect management's oversight of internal controls, which in turn reduces opportunities for earnings management.

In addition to placing additional responsibility on management to identify various levels of weaknesses within internal controls, SOX also imposes an additional mandate on auditors to attest to management's report of internal controls. Ge and McVay (2005) examined the disclosure of material weaknesses in internal controls after the passage of the Act, by studying a sample of 261 companies who had disclosed at least one material weakness in their SEC filings between 2002 and 2004. The study revealed that inadequate commitment of accounting resources is typically linked to weak internal controls. The primary reason reported for disclosing material weakness was the lack of skilled accounting personnel. This suggests that prior to the implementation of SOA, many organizations did not consider internal controls a critical matter. Additionally, since auditors only had to test controls based on their clients' risk assessments, management was able to get away with various wrongdoings. Krishnan (2005) posits that poorly performing companies many lack the necessary resources to invest adequately in good internal controls. The implication of this assertion is that, since it costs money to maintain good internal controls, poorly performing companies paid little attention to them and their auditors had to adjust their risk assessment levels accordingly.

The question is as follows: should only good performing companies be expected to

have good internal controls? Ge and McVay's (2005) research highlights that there is a positive correlation between the disclosure of material weakness and business complexity. This discovery is particularly significant as it is the first study to delve into the area of internal controls over financial reporting after the SOA was passed. It sheds light on the impact of the Act on financial reporting, which was previously an area that received little attention. Additionally, it provides an opportunity for the Act's critics to acknowledge its positive impact.

However, the study is not impervious to shortcomings. First is the period of study: between 2002 and 2004. Considering that the SOA was only passed in 2002, and not many companies, especially the foreign companies listed on US markets were required to comply with it, it can be safely inferred that the findings could be both premature and subjective. Secondly, the sample chosen 261 may all be US- based and hence, it could be problematic to generalise the findings. Nonetheless, it does open up research opportunities which is this researcher attempts to explore.

Bedard and Graham (2011) conducted a study to investigate the impact of the SOA on financial reporting and found that the involvement of auditors in the management of internal control was a major influence. The study, which obtained data from large audit firms, examined the detection and severity classification of internal control deficiencies identified under section 404 of the SOX. Using a sample of 3990 specific internal control deficiencies in 76 engagements for 44 companies, the study aimed to determine auditor versus client detection of internal control deficiencies. In contrast to previous studies, the findings showed that auditors detect approximately three-quarters of un-remediated internal control deficiencies and classify misstatements as severe once they have occurred. Additionally, the study found that clients often underestimated the severity of internal control deficiencies. These

results are suggestive of the fact that the involvement of auditors in the detection and classification of internal controls helps augment the quality of financial reporting under SOA by facilitating the early detection and correction of internal control deficiencies.

This study, like any other, suffers from some limitations. A major predicament is the time frame it covers, specifically 2004-2005. The SOA was enacted in 2002, and foreign companies listed on US markets were not required to comply until July 2006. Therefore, this study did not account for evidence from these companies, which raises concerns about the generalisability of the findings. This weakness highlights the need for further research to address this gap.

Before the enactment of the act, auditors had the option of not testing internal controls if they deemed them weak and not cost-effective. However, the SOA mandates a base level of control testing by auditors, removing this option. In a study by Patterson and Smith (2007), the strategic model of auditing was examined, where managers choose the strength of internal controls and the amount of fraud, and auditors focus on testing internal controls and substantive testing for evaluation. Control testing determines if the controls are functioning effectively as documented, while substantive testing detects material misstatements in account balances and transactions. The study found that under the Act, internal control strength has increased, fraud has decreased, and financial reporting has improved. This finding is consistent with the Bedard and Graham (2011) study. Additionally, Section 404b of the SOA prohibits auditors from abandoning further testing of controls and performing only substantive testing, and Section 302 imposes severe penalties on managers if significant internal control deficiencies are discovered by auditors.

In a related study, Li and Wang (2006) sought to examine the significance of auditor's Section 404 reports by exploring the connection between Internal Control over Financial Reporting (ICFR) audit opinions and future reporting errors. They analysed a sample of companies that filed section 404 reports from January 2005 to May 2005 and looked for restatements from June 2005 to June 2006. The results of the study showed that companies that received adverse findings for ICFR were more likely to have future restatements. Based on their findings, the authors concluded that ICFR can serve as a predictor of the possibility of future restatements, which can provide valuable information to investors about the potential severity of restatements. Thus, the study provides further evidence of the importance of section 404 assessments as a new measure of future earnings quality.

As in the previous studies, the limited nature of the period under study makes it very problematic to generalise the findings of this study. A longer period of study of the effects of section 404 could provide a better picture.

Feng and Li (2010) examined whether the SOA has helped to curb material misstatements in financial reporting since its inception. Using data from 55,000 companies obtained from Audit Analytics, spanning between2000-2009, they conclude that compliance with section 404 of the SOA helps firms to detect and correct material misstatement in a timely fashion, to prevent material misstatement from occurring in the first place. Pertinently, they discovered that firms with effective internal controls are less likely to have material misstatement than those without. Admitting the flaws associated with their study, they intimated that there could be other factors that can also account for the link between internal controls and material misstatements. This flaw notwithstanding, the large population, (over 55,000 companies) meant that this study is among the first to use wider stream of data as

well as long period (2000-2009) in the academic literature to arrive at conclusions about the SOA.

In a related study, Rice and Weber (2010) investigated companies that disclosed material restatements after the SOA to determine whether the control weaknesses that led to them were originally disclosed. In order to accomplish this, they extracted all restatements announced between 2004 and the end of 2008. Then these were matched to the corresponding internal control reports from the misstatement periods. This yielded 944 restatements with matching internal control reports. The study found among other things that based on the timings of the restatement announcements, 2005 yielded more restatement than the rest of the years, it started to decline thereafter. Notably, effective implementation of the SOA started in 2004, and therefore, this result, albeit superficially, lends credence to the impact of section 404 and 302 on financial reporting. However, this study concluded that this pattern was not consistent with "firms and their auditors improving the reliability of internal control over time". Accordingly, they posit that it will be too early to attribute the declining rate of ineffective internal control opinions to improvements in internal control practices, mandated by the SOX, a view which is shared by Besch (2009).

Aguilar (2007) also asserts that the compliance of section 404, for instance, has led to huge progress in internal control weakness reporting in America. The study used data from Audit Analytics (which tracks data on corporate filings from over 9700 public registrants) found a significant reduction in internal control weaknesses in the first three years (November 2005-October 2007) of compliance with the SOA. As per the findings of this research, 624 unique adverse disclosures on internal controls weaknesses were made in the first year. This number fell to 390 in the second year and subsequently reduced to 348 in the third year. This situation is impacting

positively on audit opinion. Mark Cheffers, (CEO of Audit Analytics) is quoted to have said that, between the same periods (2005-2007), adverse auditor opinion of internal controls also declined from 390 in the second year to 348 in the third year.

The Implementation of section 404, according to Aguilar has led to significant drop in all the major causes of auditors‟ adverse opinion. Revenue recognition related problems fell from 30.5%in 2006 to 21.2% in 2007, whereas inventory and vendors related issues fell to 17.2% in 2007 from 26.2% in 2006. If these figures are anything to go by, then one cannot fail to see the economic benefit of the SOX to all stakeholders of financial reporting. William H. Donaldson of SEC once said that strong internal controls provide significant long-term benefit in helping prevent fraud and misdirection of corporate resources as well as enhancing the accuracy of financial reporting, which leads to better input for management decisions and higher quality information and stronger protection for investors (SEC 2005).

Wang (2008) also set out to examine whether restatements have increased after the SOA, and how the stock markets reacted to these restatements. Using a sample of 438 voluntary restatements (130 in the pre SOA period and 308 in post SOX period) between 1997 and 2005, the study found that companies are more likely to restate their financial statements issued before the SOA than after it. In relation to stock market reactions, the study found that whereas the market was more tolerant with restatements immediately after the SOX (Pre-Post), the same cannot be said of restatements of financial accounts prepared after the SOA. The reasoning for this, the study found, was the perception that all the restatements occurring immediately after the SOX was undertaken to correct pre- SOA reports. However, the markets viewed all such restatements of accounts prepared after the SOX as evidence of non-compliance with the SOA, stemming from weak internal control.

This view is also shared by Callen et al. (1991) who outlined three reasons why investors perceive restatements as negative signals. These are:

(i) “That restatement indicates problems with the accounting system that may be manifestations of broader operational (and managerial) problems,

(ii) (ii) that restatement causes downward revisions in future cash flows expectations, and

(iii) (iii) that restatement indicates managerial attempts to cover up income decline through cooking the books”.

Wang (2008) study found that there was a negative association between stock returns and restatements. Despite its methodological strengths, the study of Wang (2008) only focused on US companies, without adequately considering other non-US companies listed on the US stock markets. The justification for such a stance might be attributed to the fact that most foreign firms were exempted from SOX compliance until 2006.

Touching on the vexed question of the market reaction to announcements of accounts restatements, Burks (2011), examined to see if there is any evidence that investors are confused by the „flood‟ of questionable materiality of accounting restatements after the SOX was passed. The study which used two reports from the General Accounting Office (GAO) between 1997 to September 2005 from which data was extracted found that whereas there were only 468 restatements before the SOA, the period immediately after the SOX yielded 919 restatements (almost 100%increase). However, it concludes that, to the extent that announcement of post SOA restatements was caused by “fraud, multiple items and delays in quantifying earnings impact” but the market reaction was less negative. But it found that these types of restatements were smaller and less likely to occur after SOA, and therefore

concluding that investors are not confused by after-SOA announcements of accounting restatements.

This study found that restatements due to fraud after the SOX are small and less likely to occur. If this is true, then the logical question begging to be asked is" why is this the case"? Is it because internal controls are now being taken seriously by both managements and auditors and these are impacting positively on financial reporting to the point of making fraud less and less possible than probable as result of Sections 302 and 404 of the SOA? Or are the investors' lack of confusion due to their appreciation and expectation of restatements post SOA or is it because they anticipate more restatements due to their (investors) acquiescence of the potency of sections 302 and 404 to curtail fraud? If affirmative answer is assumed to these questions, then one can argue that the SOX is impacting positively on financial reporting and thus fulfilling one of its key objectives: restoring public confidence in financial reporting.

Keinath and Walo (2009) discuss the authority given by the Sarbanes-Oxley Act of 2002 to audit committees in overseeing their companies' financial reporting processes in the U.S. The authors used an empirical approach to examine the audit committee practices of the Nasdaq 100 companies as of August 2002. They believe that it is important for audit committees to evaluate their own performance and report on whether they carried out the charter requirements

2.14 SOA and Internal Controls Effectiveness

The study of Cheng et al. (2017) finds that board independence is associated with both fewer account-specific and company level weaknesses and concluded that board independence is associated with timely remediation of internal control

weaknesses. Schroeder and Shepardson (2016) also address whether SOA 404(b) internal control audits under two auditing standards regimes and SOA 404(a) management assessments are associated with improved internal control system quality, an important and largely unstudied potential benefit. Using an indirect measure of internal control system quality of future unaudited accruals quality, the study finds that internal control audits initially provided internal control quality benefits. However, the study finds that after the 2007 Auditing Standards (AS) change, internal control quality deteriorated for ICFR audited versus unaudited firms. The concluded that the PCAOB concerns over internal controls may have merit.

Lim, Lee and Chang (2016) report that although Dodd–Frank Act of 2010 exempts small, non-accelerated filers from compliance with Sarbanes–Oxley Act (SOA) Section 404b internal control audits. That said, these firms are required to comply with other internal control regulations, namely, SOA Sections 302 and 404a, starting in 2002 and 2007, respectively. A small number of these firms also voluntarily adopted (and sometimes dropped) Section 404b during 2004-2010. However, no such exemptions were extended to foreign companies listed in the US. Once a company meets the threshold of being listed on a major market, they are required to comply with the provisions of the SOA.

Krishnan et al. (2020) investigate the impact of a series of internal control regulations introduced by SOX on the financial reporting quality of small firms. It finds that most of the adopters and non-adopters benefited from SOX 302 and 404a compared with the PRESOX period. However, only the non-adopters gained incrementally when moving from SOX 302 to SOX 404a. Furthermore, the study finds that Section 404b benefited companies with prior material. The results prove that firms that adopted Section 404b audits availed there are incremental benefits, even when they were complying with

Section 302 and Section 404a. Consequently, extending the exemption to more companies would result in a loss of the reporting quality benefit of 404b. This study, which focuses exclusively on non-accelerated filers and examined the differences across four regulation regimes over a long window compared to prior studies, provides strong evidence that the financial reporting benefit of SOX 404b is not transitional, but rather extends for a few years even after some firms discontinued the 404b audits.

In their 2015 study, Rice, Weber, and Wu explore potential penalties that could be utilized as enforcement measures for Sarbanes-Oxley (SOA) Section 404. Their research centres on companies that have undergone accounting restatements, with some having previously disclosed their control weaknesses as required and others only acknowledging them after the restatement announcement. The study concludes that there is no evidence to support the notion that penalties are more likely to be imposed on companies, management, or auditors who fail to report ongoing control weaknesses. As a result, the enforcement mechanism for Section 404 may not be sufficient in motivating management to comply.

Does the *fear* of public and private enforcement mechanisms surrounding SOA provide incentives for compliance of Sections 302 and 404?

Some of the above questions appear to have been answered by the study of Byers and Haranaiova (2007) in a Public Company Accounting Oversight Board (PCAOB) working paper. They investigated to determine if there have been any changes in market responses to announcements of restatements post SOX, using data from 1998- 2005. They examined 1709 companies after adjusting for companies that ceased to exist post SOA (Enron and WorldCom) and those which lack stock price data within the eight-year period that restatements were disclosed due to accounting

errors. By using event methodology and comparing both pre and post SOA announcements of restatements, the study found that SOA and events surrounding it impacted positively on market response to these announcements. This assertion is evidenced in the reduction in market value loss after the announcement of restatement post SOA than pre-SOA. This hints at increased investor confidence in financial reporting post SOA, because they now believe that announcements of restatements convey timelier and higher quality information and thereby making them (investors) worry less concerning such announcements and thereby answering the question that investors are not confused by announcement of restatement in the post SOA era. The logical question that follows is whether this stated belief by investors in restatements post SOA era is accounting for the neutral effects of such announcements on cost of capital?

In a related study, Ogneva et al. (2007) examined the association between cost of equity and the disclosure of internal control weakness for companies who disclosed first time under Section 404. They investigated if firms reporting internal control weaknesses under Section 404 had a higher cost of capital in comparison with those without any internal control disclosures? They found that whereas firms with internal control weakness have higher implied costs of capital, there was little evidence to prove any such cost-of equity effects due to internal control weaknesses reported under Section 404.

As in Burks (2011), the study Ogneva et al., (2011) seek to question the economic value of reporting internal control reporting under the Section 404 of the SOA. However, after admitting the inherent weakness of their study, (the complications associated with costs of equity measurements and the sample of large- firm bias), they conceded that because SOX requires firms and their auditors to provide

assurances on an ongoing basis, this will naturally lead to a significant change in managerial behaviour, due to what they describe as "exogenous pre-commitment to disclose".

Taken together, a combination of periodic reporting on internal controls and the punitive measures prescribes by the SOA for failures to do so, may imply, all things being equal, that management will have no option but to improve internal controls and subsequently financial reporting. The Sarbanes-Oxley Act 2002 has introduced criminal penalties for financial fraud and created new classes of financial fraud as apart from exposing the CEO and CFO to joint or separate liability for financial fraud. If the impact of these measures is enough to encourage management to improve internal controls and corporate reporting, then one can say that it is functioning as expected.

However, this view is not shared by the study of Karpoff et al. (2008). They opined that punishing corporate executives is not a new development that began with SOX. They asserted that in the past, managers who were caught „cooking" the books were dealt with seriously, long before the passage of the SOA. Using a sample of 2206 individuals identified as responsible for 788 SEC and department of justice enforcement actions for financial representation between 1978 and 2006, they found that only a paltry 40 (5.1%) of the 788 enforcements actions were invoked under Sarbanes –Oxley provisions, thus proving the point that penalizing corporate misconduct predated SOA. Whilst this assertion is not disputed, this study was slow to admit that the SOA was passed in 2002 and that the implementation did not commence for most companies until 2004 and beyond. Consequently, the SOX period data included for analysis might have been either too insignificant or premature. Thus, the comparison is disproportionate because data stretching as far

back as 1978 to 2002 (24 years) should be compared with data from 2004 -2006 (3years). Viewed from this angle, the 5.1% becomes very significant in its own right.

In an unpublished PhD thesis, De Vay (2006) projects a very gloomy picture of the SOX to the point of almost concluding that it (SOA) is redundant and pointless. The study, which examined the effectiveness of SOX in preventing and detecting used statistical enforcement data from Securities and Exchanges Commission (SEC) and financial restatement numbers that were published by Huron Corporation, found that the cost of the SOA was disproportionate to the benefits and concluded that whichever way one looks at it; either qualitatively or quantitatively, the SOA is not effective in both the prevention and detection of financial statements frauds. This view is not shared by Aguilar (2007)

A study commissioned by the Securities and Exchanges Commission (SEC. 2011) attested to the lower restatement rate for accelerated section 404 filers than those who did not, and the study suggested that auditor attestation on internal control over financial reporting (ICFR) correlated positively with reliable financial reporting, concluding that financial reporting quality under section 404, has improved significantly.

The study of Glass-Lewis and Co., LLC, a leading independent proxy firm, (2009), entitled; Restatement Dust Settles, examined U.S.-listed companies with market values of at least $250 million, and discovered that there was a significant decline in the number of restatements in 2008, which was attributable to the consequence of work recently completed by larger companies to overhaul the systems and processes (internal controls) they use to ensure financial reports are accurate mandated by the ACT. More significantly, the study found that, in the fifth year of

Sarbanes-Oxley, more companies made fewer errors resulting in restatements. Some of the findings discovered are as follows.

- 172 U.S.-listed companies with market values of at least $250 million filed 185 financial restatements to correct errors, a five-year low
- Only 6% of companies filed restatements, down from 9% in 2007

Returns for companies that corrected severe errors recovered least and continued to underperform six months and one year following restatement announcements 85% of restatements leading to most negative stock-price returns were filed by companies with other issues, such as material weaknesses or late filings.

In a related development, the US Treasury (2008) commissioned a study, entitled “the Changing Nature and Consequences of Public companies” financial reporting in 2008. This study found that for all the companies filling restatement of accounts, the reasons was shifting from fraud and revenue to regulatory and accounting issues. Restatements by large companies over fraud and recognition fell to 2% in 2006 from 29% in 1997, whereas restatement attributable to revenue also fell to 11% 2006 from a previous 41% in 1997. In terms of market reactions to the announcements of restatements, it also found that while there was 8% reduction in share prices in 1997, only a marginally 2% drop was registered in 2006. This pattern is consistent with the fact that the market had more confidence in the restatement announcements in 2006 than in 1997 and expects that these should lead to improvements in the quality of financial reporting. This confidence stem from the fact that these announcements are a symptomatic to good internal control practices mandated by the SOA rather than a general malaise being experienced by these companies.

The FRC Review has recommended that the UK Government should consider how the UK's established internal controls framework could be strengthened, including "learning lessons from SOX" and the White paper summed up it view of the SOA as follows:

> *"The key SOX provisions are requirements for the management of public companies to assess and report annually on the effectiveness of their company's internal control structure and procedures for financial reporting. The company's auditor is then required to attest to and report on this assessment. SOX also places responsibility for a company's financial statements and internal controls clearly with the CEO and the CFO. These officers must certify (inter alia) for each annual and quarterly report that they have reviewed the report, acknowledge their responsibility for establishing and maintaining internal controls and that they have evaluated the effectiveness of the internal controls within 90 days prior to each report.*"
> (ICAEW 2021)

2.15 SOA and External Auditors Reporting Impact on External Audit Quality

SOA Section 404b mandates auditors to attest to the reliability of an entity's internal control in a separate report. This attestation requires auditors to perform more substantive testing as well as tests of control of entities internal control systems. Has this increased level of testing improved the quality of audit and audit reporting under SOA? The UK Corporate governance does not have such a provision. We examine the state of the extant literature.

Hoag, Myring and Schroeder (2017) examine whether the institutional changes accompanying the passage of the Sarbanes-Oxley Act of 2002 (SOA) have standardized the audit's role in the overall financial reporting process, thereby

decreasing the impact of auditor characteristics on financial reporting quality. The study finds that Auditor industry expertise has a significant association with financial reporting quality throughout the entire sample period. Thus, concluded that financial reporting quality continues to be predicated on the degree of specialization of an audit firm in both the pre- and post-SOA periods; however, the impact of auditor size as a surrogate for quality has diminished. Similarly, Guragai, and Hutchison (2019) examine the value of auditor attestation in internal control over financial reporting (ICFR) disclosures. They argue that internal control material weakness (ICMW) disclosures issued without auditor attestation by non-accelerated filers provide weaker signal to the impaired financial reporting quality compared to those issued with auditor attestation by accelerated filers. It concluded that auditors' involvement in the assessment of internal control effectiveness improves the signalling effect of ICMW disclosures on impaired financial reporting quality. The primary responsibility of external auditors is to exercise professional scepticism. However, it is uncertain whether the requirements of the Sarbanes-Oxley Act (SOA) have led to an increase or decrease in professional scepticism while performing their duties. Pike and Smith (2015) conducted research to determine whether the SOX and 11 years of regulation by the PCAOB have affected the level of professional scepticism among auditors. Their findings suggest a significant decrease in professional scepticism. Similarly, Chiu et al. (2017) analysed the effect of transitioning from self-regulation to heteronomy on the gap in audit quality between Big Four and non-Big Four auditors. They used univariate analysis, multivariate analysis, and quantile regression analysis to analyse publicly held companies in the USA from 1999 to 2012. Audit quality is measured with discretionary accruals. The study shows an insignificant difference in audit quality between the clients of Big Four and non-Big Four auditors after Public

Company Accounting Oversight Board (hereafter, PCAOB) commenced its operations. In analysing the effects of PCAOB inspections on the audit quality of audit firms that are inspected annually and triennially, they find that the inspections have more positive effects when carried out annually. This, in turn, suggests that the frequency of inspection is positively associated with audit quality, thus providing evidence that recent improvements in audit quality have been caused by changes in regulatory standards.

Moo Sung et al. (2019) investigate two issues. First is the effect of the Sarbanes–Oxley Act (SOA) on audit quality after 10 years. Second, the authors test whether it was necessary to close all the Arthur Andersen offices due to the misbehaviour of a few (e.g., the Houston and Atlanta offices). The authors find that, over the long run (10 years), there is a significant positive change in conservatism after SOA adoption as compared to during the previous similar period. In addition, only 6 of the 20 city-level offices of Arthur Andersen were less conservative than were their other Big 6 competitors in the same city. Furthermore, the results also suggest that some city-level offices of Arthur Andersen were engaged in more conservative accounting practices than were their competitors and the Houston Andersen offices.

The study of Abbott et al. (2007) extends current literature related to non-audit services by investigating internal audit outsourcing to the external auditor. They posit that certain types of internal audit outsourcing (i.e., those which are nonroutine, and thus tend to be nonrecurring in nature) are unlikely to lead to economic bonding, while offering significant potential for improvements in audit coverage and scope when provided by the external auditor. Our results are consistent with firms with independent, active, and expert audit committees being less likely to outsource routine

internal auditing activities to the external auditor. However, the outsourcing of nonroutine internal audit activities such as special projects and EDP consulting are not negatively related to effective audit committees. Additionally, outsourcing of either type of internal audit activity to an outside service provider other than the external auditor is unrelated to effective audit committees. Collectively, we interpret these findings as supportive of an effective audit committee's ability to monitor the sourcing of the firm's total (i.e., internal and external) audit coverage, while simultaneously exhibiting concern for external auditor independence.

Ashbaugh-Skaife et al. (2007) conducted a study on internal control deficiency (ICD) disclosures that occurred before mandated internal control audits to identify economic factors that could lead firms to experience control failures and assess managements' incentives to identify and report control issues. Their findings indicate that companies that disclose ICDs have more complex operations, recent organizational changes, greater accounting risk, more auditor resignations, and fewer resources for internal control than non-disclosing firms. In terms of incentives to identify and report internal control problems, firms with ICD disclosures are more likely to have prior SEC enforcement actions and financial restatements, use a dominant audit firm, and have more concentrated institutional ownership.

Bhamornsiri et al. (2007) find that the Sarbanes–Oxley ACT (SOA) was effective for many large U. S. companies for fiscal years ending on or after December 15, 2004. Some, cross listed, non-U.S., companies must comply with the provisions of Section 404 (404) of SOA for fiscal periods ending on or after July 15, 2006. The aim of the study was to review the implications of SOA 404, to assess SOA 404’s potential impact on world-wide securities regulation, assess the impact of SOA 404 on external audit fees for the initial group of filers during the first 2 years it was effective and assess

SOA 404's prospective economic impact on foreign companies that cross list their securities in the U. S. The study finds that audit fees increased by an average of 65% for the initial group of filers in the first year SOA 404 was effective and by .9% in the second year. This increase was reflected in a .5% decrease in earnings for these companies. Therefore, the authors suggest that similar results might be expected for foreign companies that cross list, and that the implementation costs do not provide sufficient reason to weaken or eliminate SOA 404's requirements at the time.

Yuping et al, (2017) point out that the Sarbanes-Oxley Act (SOA) Section 404(b) integrated audit is associated with a lower incidence of misstatements. In this study, the authors predict that under 404(b), the auditor's ability to detect misstatements will increase relative to other internal control regimes when greater resources are exerted during the engagement. They find that the benefits of section 404(b) versus other regimes (including SOA 404(a)) in reducing misstatements increase with incremental audit effort (proxied by abnormal audit fees). However, the study did not find any benefit of 404(b) in misstatement reduction when abnormal audit effort is low. This implies that the value of 404(b) testing is not uniform, but rather is greater when sufficient resources are available to thoroughly understand client controls.

Cohen et al. (2010) find that the SOA significantly expand the role of auditors, management, and corporate governance actors such as the audit committee and the board. The study concludes that the requirement CEO and CFO certification are reported by auditors to have positive effect on the integrity of financial reporting. On audit committee however, it finds that they play a passive role in helping to resolve contentious financial reporting issues with management, with respondents indicating that the auditor and management often try to resolve issues before they come to the attention of the audit committee. The question is does this mean management and

auditors try to side-line auditors in resolving issues? This is an interesting finding, given that audit committee serves as bridge between external auditors and management.

2.16 Chapter Summary

Academics and institutions have differing views on the impact of the Sarbanes-Oxley Act (SOX). Specifically, the impact of Sections 302 and 404 on internal controls over financial reporting has been subject to mixed findings. While some studies have shown significant improvement in internal controls post-SOX, others have found no evidence of economic value. These inconsistencies offer opportunities for further research on the SOX, especially in the UK, where research on this topic is limited. Additionally, most studies have used a positivist approach and the theory of agency, which creates an opportunity for a constructivist approach to understand the effects of the SOX on UK companies. Furthermore, while there have been studies on the SOX, none have focused on corporate communications and how they have been affected by the act. The annual report is an important communication tool through which management speaks about their performance to shareholders, and the quality of corporate governance disclosures in the report is crucial for restoring investor confidence in the market, which was a primary objective of the SOX. This study takes an interpretive approach using theory to examine the effects of the SOX on UK financial reporting and the quality of corporate governance disclosures in the period after 2002.

CHAPTER THREE

THEORETICAL FRAMEWORK

3.1 Introduction

This study aims to examine how the Sarbanes-Oxley Act 2002 has influenced corporate reporting in the UK since its implementation. The preceding chapter provided a comprehensive survey of relevant literature, which helped throw more light on the state of research on SOA and how it has influenced corporate governance disclosures including audit reporting and disclosures. However, this chapter will discuss the theoretical framework which will help our understanding of the current changes taking place in corporate disclosures after the implementation of the SOA 2002. In the end, this theoretical framework will help us to answer the question of, or to explain the changes in disclosure practices in financial statements.

The question this study seeks to understand is the extent to which corporate reporting has changed in the UK since the SOA was passed. Has the passage of SOA influenced corporate reporting in the UK? If so, what are they? Whether the SOA through its deterrence posturing, had any positive/negative effect on managerial behaviour? These are some of the questions which remain unanswered from the literature which we can undertake to answer in this study. This study is significant not least because the UK does not have such a punitive corporate governance code and it still relies upon comply or explain -principle- based regime of corporate governance-. A study of such nature can lend itself to such theories in accounting, management, and finance such as Institutional theory and the Structuration Theory (Giddens 1984). We shall briefly introduce structuration theory, but will primarily use institutional theory to analyse how the implementation and compliance of the Sarbanes-Oxley Act (SOA) have impacted corporate reporting in the UK, as displayed in Figure 1.

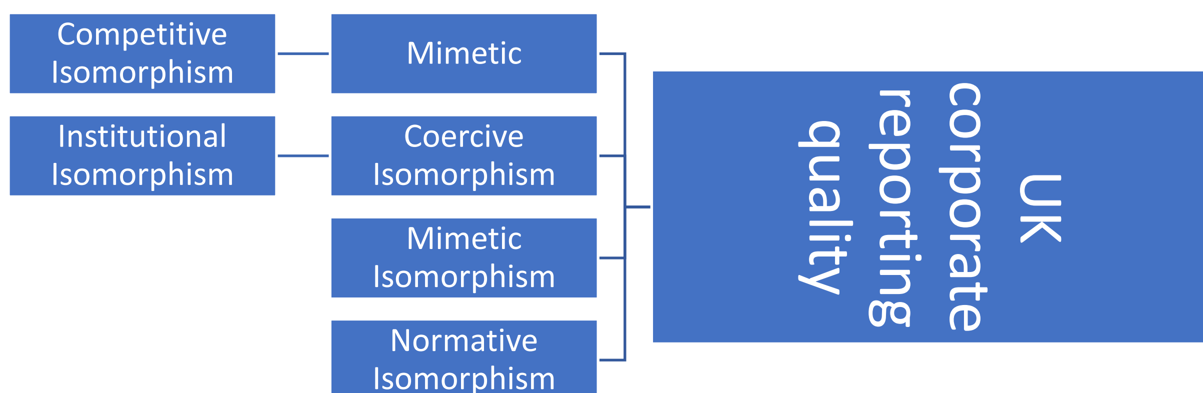


FIGURE 1 THEORETICAL FRAMEWORK

3.2 Structuration Theory

The structuration theory of Giddens' (1984) has an undeniable interest in procedure for researchers. Giddens in a series of publications in the 1970s and early 1980s,

used a new idea of structuration theory to outline a new approach to the study and understanding of social relations (Stones,2015). The author offers ideas of organization, construction and structuration that have characteristic significance to research relating to organizations impacted by individuals' actions. Hence, the practice needs contemplating because it affects results. At the same time, his thought on social design takes into consideration both imperative and enablement: to comprehend movement, for taking care of institutional embeddedness. Furthermore, the idea of structuration unites construction and organization to give them stream - congruity, yet in addition the chance of underlying change.

The fundamental basis of Giddens's structuration theory is the identification of the relationship between the individuals (human agency) and the social structure (traditions, institutions, moral codes and established ways of doing things) and the interactions between them (Mestry and Bodalina, 2015). Giddens' used a stratified model to conceptualize human agency. The model is a combination of psychoanalytic theory, phenomenology, ethnomethodology and the elements of action and interaction theory (Turner 1986). Giddens wanted both structure and agency to be captured within the philosophy of structuration (Stones 2015). The structure also involves the use of resources that are material equipment and organisational capacities to get things done and that those who have resources can mobilize power. Giddens contends that rules and resources are transformational in that they can be created, changed and recombined into different forms and that rule rules operate in situations of interactions by specifying rights and obligations that are the bases of sanctions. According to Turner (1986), a significant aspect of Giddens' structuration theory is the focus on a structural set of private property - money, capital, labour contract, and profit - which serve as the mediating vehicle for

producing and reproducing institutional features of social systems. The uncontrolled forces of these features precipitated the collapse of companies like Enron, which led to the creation of the SOX. Giddens argues that human agency and social structure are in a constant relationship with each other, and it is through the repeated actions of individual agents that the structure is reproduced.

Human action, according to Giddens, occurs as a continuous flow of conduct as cognition. 'Action' is not a combination of 'acts'; and that 'action' cannot be discussed separately from the body, its meditations with the surrounding world and the coherence of an acting self. The foregoing suggests that the social structure - traditions, institutions, moral codes, and established ways of doing things; can also be changed when people start to ignore them, replace them, or reproduce them differently (Tuner 1986). A significant ramification of structuration theory, accordingly, is that its designs are not fixed or given. With both structure and agency having been captured within the philosophy of structuration, other commentators began to compare Giddens' structuration theory to the works of Pierre Bourdieu France. Bourdieu (1977) wanted to go beyond the view that social relations should be perceived as attributes inherent to the people involved in preference for individual and collective action thus placing more focus on human agency within the structure of organisations. However, structuration theory is not without its critics. A major critique was provided by Archer (1995), who while not dismissing outright the merits of the theory, did offer that structuration theory emphasis on structures and action, confused our understanding of the relationship between the agent and structure. This weakness, according to her, undermined our ability to get a clear sense of objective constraints, limits, and possibilities of structuration (Stones, 2015). Offering an alternative approach, Archer (1995) strongly argued for the

conceptualisation of dualism of structure and agency, noting that the two must go together. This idea of dualism of structure had earlier been supported by Mouzelis (1991). Mouzelis extended this discussion by arguing not only for dualism, but for duality of structure and the duality of structure and agency by developing series of conceptual categories that allow us to distinguish between a subtle variety of structure-agency relationship (Stones, 2015). All in all, none of these critiques completely dismissed the foundations upon which Giddens' structuration theory is anchored. What has emerged in the process has been what Stones (2015) calls variants of structuration theory which are being used as a guide in different fields of research. The theory of structuration laid a very solid foundation for the study of and our understanding of institutions. However, this study will adopt institutional theory due to the nature of the research question we intend to answer. It is less of structure and agency and more of behavioural practices of management which led to the collapse major companies in the US in the early 2000s leading to the passage of the the Sarbanes-Oxley Act 2002.

The SOA was passed in direct response to the high-profile company collapses in the US in the early part of 2000. One of its key requirements is disclosure, which tasks both the CEO and CFO to make disclosures of sound corporate governance structures which they would not have otherwise made before its implementation. At the tail of this requirement is a note of the probability of prosecutions by the US Department of Justice (DOJ) where evidence of failures to comply could be proven by the Securities and Exchanges Commission SEC. At the heart of the collapse of Enron were human failings, which was also the case of management failing to act in a manner that was proper and ethical in their duty as management to protect investors' interests. The SOA is also meant to serve as deterrence to corporate

fraud and crime by those charged with the governance of organisations listed in the US.

The SOA has eleven chapters which included certain sections which caught the attention of senior management of publicly listed companies. To begin with, it created the Public Company Accounting Oversight Board (PCAOB) to regulate public auditors. It also created a joint responsibility clause in Section 302 and 404 for both the CEO and CFO of listed companies on matters of financial reporting and internal control, as well as roping in all listed companies' auditors, for the first time, to attest to their client's internal control systems and report on it to the SEC. Furthermore, and more importantly, it created a penalty clause in Section 906, where company officials, who are found negligent could be imprisoned, fined or both. These and others were meant not only to instil fear but also to forestall managerial and financial discipline in the management of public companies.

UK listed companies must comply with the UK Combined Code of Corporate Governance whose content is quite different from the SOA. In particular, the UK code, unlike the SOA, does not contain any specific penalties for non-compliance with the provisions. The question in this study is that has the UK – SOA compliant companies have done anything different due to, or as a result of the SOA. Have there been changes in managerial decision masking after SOA? If so, to what extent are these due to SOA or others? To what extent have the internal control systems as well as internal processes been changed, and overhauled to remain SOA compliant? Has the presence of SOA induced any changes in human behaviour in respect of the audit committee resulting in better performance and accounting restatement? In general, can a company and its shareholders benefit from continuing to comply with SOA and its requirements, as reflected in market reactions

to the reports? It remains to be seen through empirical research whether the SOA has effectively deterred managerial misconduct and influenced organizational processes. The most appropriate method for understanding this issue may be through the use of case studies.

3.3 Institutional Theory

One of the original proponents of institutional theory is Henry J North. In one of his many essays on institutional theory, North (1993) used Game Theory to ask and answer the question of how to bind the players to agreements across space and time. He answers this question by saying that players can be bound when the gains from living up to agreements exceed the gains from defecting. Faundez (2016) discusses that North had a major impact on contemporary development thinking and that his work was the single most important source of inspiration which inspired the shift from technical economic issues to a more broader institutional concerns in the early 1990s. Faundez (2016) continues that it is this focus which fed into the World Bank's motto 'institutions matter', which then brought about a substantial increase in the resources that international development agencies allocate to legal and institutional reforms. Institutional theory offers a novel way to approach the study of social, economic, and political dynamics (DiMaggio & Powell, 2000), and institutions form the rules of the game within society (North, 1991). Meyer (2009) opines that institutional theories depict the world as a shared cultural conception of society which voluntarily affects individuals, nation states, and organizations. It is a research tradition which traces its origins back to foundational articles that discussed how organizational founding and change were driven less by functional considerations and more by symbolic actions and external influences than the theory at the time assumed (Meyer and Rowan, 1977). Although these articles drew

mostly on the concepts of bounded rationality which are key to behavioural theories and sketched a broad range of potential research questions, Grieve and Argote (2015) discusses that much subsequent research moved away from the firm focus on these behavioural theories of organization and focused rather on the environmental influences such as the diffusion of new institutionalized practices among firms. Kostyuchenko et al. (2021) stated that the institutional theory creates the provision for the accurate depiction of the present changes and associated developments concerning the accounting systems that are followed nationally and globally. This incorporates the perspective of identifying relevant information by the users concerned with accounting information by referring to the same from the legal framework for appropriate implementation based on the entity-level development of accounting. According to Bogataya and Evstafieva (2013), there are two main focuses of accounting development: one is to improve financial reporting effectiveness by creating a universal mechanism that enables organizations to collaborate seamlessly with foreign partners and subsidiaries, while the other is to update the current accounting paradigm to ensure that information support is provided to the various social groups in the extended business environment. Both of these policy areas are crucial as accounting is a fundamental category of institutionalism, which acts as a safeguard against uncertainty in the broader socio-economic environment by providing accurate and reliable information. Institutionalism influences the integrated accounting systems at various stages, which involves interactions with multiple institutions, and this information is presented in the table below:

Stage of the process	Brief description of the stage
Determining the accounting and information needs of stakeholders	to which recipient, with what accuracy, with what urgency and with what time intervals the information is required
Collection and processing of information	Selection and definition of internal and external information sources, as well as terms; accounting for the cost of information and the benefits of obtaining it; reducing, merging, linking or detailing of information
Information transfer and its interpretation	Choice of information presentation possibilities (graphically, in tables, in formulas), interpretation of numbers and indicators, disclosure of causes and consequences, proposal of options of actions, measures and rules of decision-making, carrying out of trainings
Storage of information and its further rational processing and use	Selection of technical equipment for information storage and tools in the field of information technology

TABLE 1 INFORMATION SUPPORT PROCESS

Source : Kostyuchenko et al., 2021

The above table suggests that the most common way of shaping information arrangements of the business entities needs proficient help from the incorporated accounting framework at each stage.

Baker et al. (2006) stated that the SEC oversight and the accounting profession have been focused due to the global financial scandals, leading to greater regulation of the accounting profession through the introduction of the SOX. The basic requirement associated with the institutional theory is the survival of the organisations for meeting the social norms associated with acceptable financial behaviour and governance. The organisations according to the institutional theory can secure the maximum resources based on their skills of obtaining legitimacy sitting the secondary or external sources of funding. The theory applies to the dynamic settings of the business environment as the businesses are expected to interact with the stakeholders and the broader external constituents for surviving.

The organisations may display numerous categories of practices and procedures that are specific to them as symbols for interacting with external groups that help them to demonstrate their rational decision-making. The theory is also essential for enabling the businesses to remain stable and predictable for legitimizing their request for gaining external funding from institutionalized settings like banks along with other federal agencies. The approval from state agencies remains crucial for the businesses while the predictable action plan of the regulatory agencies for ensuring the regulation of accounting by accessing the resources from government funding.

The institutional theory has been studied in the field of public administration, which emphasizes co-optation as a way to preserve institutional legitimacy in the face of external instability and internal reforms (Jones, 2010). Similarly, management literature recognizes the connection between institutional theory and legitimacy, as institutions respond to risks and threats in their business environment through communication and change. This approach helps organizations to maintain their legitimacy by incorporating structural changes that preserve their power and behaviour.

Peters et al. (2000) define institutions as a formal and informal, structural and societal or political phenomenon which transcends the individual level, is based on common values and has a certain degree of stability and influences on behaviour. Parsons (1934) offers that those institutions are systems which regulate and categorise the relationships between individuals. Theories consist of plausible relationships proposed among concepts or sets of concepts (Strauss and Corbin, 1994). It serves as a systematic explanation for the observation that relates to a particular aspect of life (Creswell 2009). The theory one chooses is dependent on

the research design, whether qualitative or quantitative. Quantitative research design starts with an approach to testing a theory whereas qualitative design uses the theory as a lens that shapes the research. In this qualitative study, a theory shall be used as a guide for us to understand what is important.

The institutional environment on the other hand comprises the values and norms in an environment which govern the behaviour of a given number of organisations (Jones, 2010). Institutional theories of organisations provide a rich complex view of organisations (Zuker, 1987). They help explain how organisations are influenced by normative pressures, sometimes from external sources such as the SOA and other times from within the organisation itself. The institutional theory considers a comprehensive set of organisational dynamics including the institutional environments and the ceremonial structures of those actors within this dynamic display (Cohen et al 2010). DiMaggio and Powel (1983) argue that institutions become similar through a process called an institutional isomorphism. There are predominantly two types of isomorphism that are comparative isomorphism and institutional isomorphism.

Competitive isomorphism refers to the competition among companies within a certain industry for resources and customers, in a given economic context. Institutional isomorphism, on the other hand, refers to the efforts of companies to gain political power and legitimacy in order to establish their role and relevance in contemporary society.

The general idea is that the expansion of structuration in an authoritative field leads to an increase in isomorphism in hierarchical structures and practices. The actions of professions, the government, and competition are the key drivers of authoritative

field structuration. This occurs through an increase in collaboration among organizations in the field, followed by the emergence of inter-organizational patterns of dominance and cooperation. This leads to an increase in the amount of information that organizations must process, and the development of shared awareness among members of a group of organizations that are connected by a common task

3.4 Neo Institutional Theory Perspectives

The word 'institution' according to Haveman and David (2008) has become a 'vapid umbrella term' which means everything and nothing, which is to say it risks losing its meaning. Alvesson and Spicer (2019) suggest that both old and new institutional economics share a common focus on behaviour and performance in economics. However, they also note that neo-institutional theory emerged in 1977 with the significant publications of Meyer and Rowan (1988) and Zucker (1977). In the same year, DiMaggio and Powell (1977) made a significant contribution to the field by focusing on isomorphism.

The central theme of the neo institutional theorist was that organisations adapt new structures and practices, not for any other reason apart from appearance legitimacy. This goes to beg the question whether organisations the structures adapted by organisations have real meaning or just something they do to create an appearance of 'rationality and sense of legitimacy' Alvesson and Spicer (2019). This idea taps into the notion of the taken- for- grantedness of institutions. Gehman (2020) discusses that over the last century, the concept of institution has been used to explain a wide range of phenomena and that one central notion is that institutions become taken for granted. Neo-institutional theory is one of the main theoretical

perspectives used to understand organizational behaviour as situated in and influenced by other organizations and wider social forces—especially broader cultural rules and beliefs. The focus was on the construction of a broader common cultural values of the actors of organisational field encouraged organisational isomorphism. However, this was expanded to include reasons for transformation and change as well as heterogeneity of actors. Alvesson and Spicer (2019) argue that one of the major advantages of neo-institutional theory is that it not only incorporates ideas and debates from sociology and management, but also draws on disciplines such as cognitive and social psychology, anthropology, political science, and economics. The foregoing discussions make institutional theory the right framework for this study.

This perspective is useful in addressing our research inquiries about the impact of the SOA on the UK corporate governance framework. The "comply or explain" approach in the UK allows companies to choose whether or not to disclose certain information. However, the implementation of the SOA, which mandates disclosure or else face consequences, presents a new concept for UK corporate governance. We aim to investigate how UK-listed companies have responded to the requirements of the SOA. Although only those listed in the US must comply, we seek to understand why UK-listed companies would voluntarily change their disclosure practices, even if not mandated by the UK corporate governance framework.

3.5 Competitive Isomorphism

As per Hannan and Freeman (1977), the understanding of isomorphism is critical to the assessment of the institutional environment of an organisation for ensuring strategic management. Isomorphism refers to the forces that impose limitations on

a group of entities that share similarities with other groups that face similar environmental circumstances (DiMaggio and Powell, 1983). In order to understand the impact of the environment and other factors on the structure of an organization, a pioneering analysis was conducted using the term isomorphism in relation to commercially operating institutions. This analysis was instrumental in the development of the influential theory of institutional isomorphism, particularly in the context of fields within organizations.

Competitive isomorphism involves the pressures towards similarity resulting from market competition. Competitive Isomorphism, according to Winter (1964), can be understood by distinguishing between survival and viability. Survival describes the fate of individual organizations whereas viability describes the "share of the market" of a given organizational form. Firms having an unmistakable competence are assumed to have abilities, skill, information, or innovation which is better than (and subsequently not the same as) the other market contenders. Hannan and Freeman (1977) postulate two rationalities exist within the market sphere –organizational rationality and environmental rationality which coincide in the instance of firms in competitive markets. These distinctions among associations are viewed as significant to firms' prosperity. As unmistakable capabilities are created after some time, these can turn out to be important for the aggregate learning and information base of the undertaking, which is viewed as the centre of competence of the enterprise. Confronted with an ever-changing competitive trading environment, where consumers and the public have become aware of general environmental matters, they form certain expectations from major businesses concerning the environment and therefore react accordingly to whether businesses are perceived to be environmentally friendly or not, for example. Any adverse perception about a

given company not keeping up with what major competitors are doing within the market space can have severe implications for its long-term survival. These can take the form of bad publicity and boycotts; for companies to avoid these unpleasant occurrences, they must reflect on Winter's (1964) survival and viability, whilst weighing up the environmental rationality or organisational rationality (Hannan and Freeman, 1977). These factors compel companies into competitive isomorphic practices to ensure they are making the right choices to meet the ever-increasing changing market environments to court the legitimacy of the market and to survive the market conditions by behaving following the generally expected market participants. Farquharson (2018) discusses that in competitive isomorphism, it is the environment that frames the selection and that the competition for survival requires companies to assume optimal forms. Eventually, those organisations which do not take the rights decisions will fail. Farquharson (2018) continues that the state is part of the environment, as it may choose to regulate the system and eventually, this regulation will shape the competitive environment such that organisations which are similar in their responses will be more likely to survive. In the end, it is the invisible hand of competition and the desire to remain legitimate that elucidates this phenomenon. Ketokivi and Schroeder (2004) find that organisations become competitive isomorphic due to the economically motivated imitation of competitive actions when the pressure to conform in a competitive environment is irresistible. Norman et al. (2007) confirm that the pressure to conform to legal, social, or professional norms confers the legitimacy that is needed to acquire resources and support for survival, whereas firms that depart from accepted and institutionalised actions and structures risk losing legitimacy and support of key constituents (Norman, Kendal and Martinez 2007). Dowling and Pfeffer (1975) describe

legitimacy as a social construct which reflects the congruence between shared beliefs between the entity and a social group. Farquharson (2018) discusses that in competitive isomorphism, it is the environment that frames the selection and that the competition for survival requires companies to assume optimal forms. Eventually, those organisations which do not take the rights decisions will fail. According to Farquharson, the state is a part of the environment and can regulate the system, which will ultimately shape the competitive environment. This regulation will make organizations with similar responses more likely to survive, as their natural desire for survival leads to competitive isomorphism. Competitive pressure is described by Carruthers (1995) as the primary force driving market efficiency. This highlights the importance of market pressures in driving changes in corporate behaviour, including corporate reporting and disclosure. However, competitive pressures may also discourage firms from disclosing more information for fear of being copied by competitors.

3.6 Institutional Isomorphism

Institutional isomorphic change happens by three instruments — coercive, mimetic, and normative. Shah (2014) discusses that Coercive isomorphism starts from political impact and associations looking for legitimacy, as from government commands got from contract regulation; mimetic isomorphism is in light of vulnerability and looking for authenticity for instance from models diffused through counselling firms, and standardizing isomorphism alludes to associations looking for authenticity from the arrangement with proficient qualities originating from permitting and instructive credentialing. Associations focused on institutional conditions where the callings and the state have a heavier hand are more powerless to isomorphic tensions.

Institutional isomorphism involves organisational competition for political and constitutional legitimacy as well as market position. This is a useful tool for understanding the politics and ceremonies that pervade modern organisational life (DiMaggio and Powell 1983:150). Institutional isomorphism involves organisational competition for political and constitutional legitimacy as well as market position. In this regard, Di Maggio and Powell (1983) propose three mechanisms through which institutional isomorphism occurs: coercive, mimetic and normative. As per their contention, institutions become similar through a process called institutional isomorphism. This is a useful tool to gain deeper insights into the politics and ceremony that pervade modern organisational life (1983:150). D&P proposes three mechanisms through which institutional isomorphism occurs: coercive, mimetic, and normative (DiMaggio & Powell 1983).

3.6.1 Coercive Isomorphism

According to Di Maggio and Powell (1983), Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function. Such pressures may be felt as force, persuasion, or as invitations to join in collusion. The authors posit that coercive isomorphism exists when an organization adopts certain norms because of pressures exerted by other organizations and by society in general, and this often leads to Increasing dependence of one organization on another which leads to greater similarity (Jones, 2010). Peng (2002) describes coercive isomorphism as the result of the informal rules of the game. Norman et al. (2007) show that regulation is a critical determinant of both firm behaviours and the outcomes associated with non-conforming actions. In some circumstances, organizational change is a direct response to government

mandate: manufacturers adopt new pollution control technologies to conform to environmental regulations. The existence of a common legal environment affects many aspects of an organization's behaviour and structure. The profound impact of a complex, rationalized system of contract law requires the necessary organizational controls to honour legal commitments.

Kwok (1996) suggests that coercive pressure can come from either within the organisation or from an external source. The profound impact of a complex, rationalized system of contract law requires the necessary organizational controls to honour legal commitments. Coercive isomorphism results from both formal and casual tensions applied to associations by different associations whereupon they are reliant on social assumptions in the general public inside which associations' capability. Such pressures might be felt as power, influence, or solicitations to participate in the agreement. In certain conditions, hierarchical change is an immediate reaction to government command: makers embrace new contamination control advancements to adjust to natural guidelines; not-for-profits keep up with records, and recruit bookkeepers, to meet expense regulation necessities; and associations utilize governmental policy regarding minorities in society officials to battle off claims of separation.

Both UK and the US operate on common law, which is that the laws are derived from custom and judicial precedent rather than statutes. The existence of a common legal environment affects many aspects of an organization's behaviour and structure. However, there is a profound difference between US and UK corporate governance systems. Whereas the UK applies the principles-based approach, whereby companies are allowed to either comply with the provisions or explain why they may not want to comply, commonly known as ‘comply or explain’, the US

corporate governance framework known as the SOA 2002 proceeds on comply or else basis. Companies listing and listed in the US major markets must comply with it without any option of explanation for non-compliance. This key difference means that for the first time in corporate governance history, the issue of coercive pressure has been introduced and this has rightly engaged the attention of companies around the world, including the UK.

3.6.2 Mimetic Isomorphism

Not all institutional isomorphism, nonetheless, gets its definition from coercive power. Vulnerability is likewise a strong power that empowers impersonation. At the point when hierarchical innovations are ineffectively figured out (March and Olsen, 1976), when objectives are questionable, or when the climate makes representative vulnerability, associations might demonstrate themselves in different associations. The upsides of mimetic conduct in the economy of human activity are significant; when an association deals with an issue with questionable causes or indistinct arrangements, the problematic search might yield a feasible arrangement with little cost (Cyert and March 1963).

Organisational ecology research has shown that environmental forces strongly influence organisations' rates of birth and death (Haveman, 1993). Mimetic isomorphism, which is the achievement of conformity through imitation (Di Maggio and Powell, 1983) is realised through the process whereby organisations change to almost become like other organisations in similar environments (Haveman 1983) and March (1979) explicates this imitation as a sensible guide to organizational change. Mimetic isomorphism occurs when an organisation responds to uncertainty where a clear cause of actions is lacking Di Maggio and Powell, 1983). Uncertainty

is inherent in mimetic isomorphism. The absence of clear rules creates uncertainty. In such cases, organisations, navigate the uncertainty in the market by mimicking the most successful in the competition in a manner that leads to mimetic isomorphic.

3.6.3 Mimetic Isomorphism and Legitimacy

Mimetic isomorphism is said to exist when one or more organizations intentionally imitate one another with the view to increase their legitimacy due to environmental uncertainties (Jones 2010). Mimetic isomorphism can occur in a period of uncertainty- lack of clear guidelines for a way forward, and in situations where a clear cause of actions is lacking. In such situations, companies tend to imitate their counterparts that are doing certain things right. For example, if they are following certain rules, either through coercive force or otherwise which in turn is making them legitimate and successful, then other companies are likely to imitate them even when these imitating companies are not required to do so. In such scenarios, organisations economise on search costs (Cyert and March 1963) and copy the actions of other organisations, by substituting institutional rules for technical rules (Meyer, Scott and deal, 1983). Di Maggio and Powell (1983) contend that organisations model themselves after similar organisations in their field who are perceived to be more successful or legitimate. Organizations do not only learn from their own direct experience, but also from other similar organisations (Levitt and March 1988).

3.6.4 Mimetic Isomorphism and ‘Obligatory Action’

UK companies not listed in the US are not bound by the regulations of the SOA and are not expected to comply with the same disclosure requirements as their US-listed counterparts. However, according to March (1981), when a certain course of action

is adopted by enough social actors, it becomes an "obligatory action" and is mimicked by others in the industry without much thought. This is known as the social constructionist view of mimetic isomorphism. This study aims to investigate whether UK-only listed companies are mimicking the disclosure practices of their US-listed counterparts in the post-SOA period. In the early 2000s, several well-known US companies such as WorldCom, Tyco, and Enron, among others, collapsed due to management corruption. Although it is unclear whether this was an example of mimetic isomorphism, there appeared to be a trend where the management of these companies exploited or responded to uncertainty in the laws. Some organisations may choose to imitate a successful peer. Consequently, creative accounting methods used by others were being copied across the board. In response to public outcry and to provide certainty in reporting requirements, the SOA was enacted to curb the trend of corporate fraud and to establish clear expectations for management of public organisations regarding their stewardship of investors' money.

The existence of a common legal environment including that provided by SOA

Home country rules – UK CA 2006, CG Code Accounting Standards and EU regulations.

Organisation’s internal rules – shareholder expectation

External countries’ rules- SOA, Europe

Section 404 (a) and (b) of the SOA for instance requires both management and auditors to demonstrate the effectiveness of the internal control system by each attestation. Although the requirement may seem simple, it has significant implications in two areas. Firstly, it broadens the scope of management's

responsibility for internal control systems (ICS) to include attestation or certification. It is no longer sufficient to have an ICS in place; the SOA requires management to provide assurance that the system has been effective throughout the period. This is the first time that both the CEO and CFO must certify this requirement jointly. This necessitates constant monitoring and supervision, as well as training and the implementation of quality control measures. Additionally, it requires the establishment of a corporate culture and work ethics that will facilitate the achievement of this objective.

Secondly, and for the first time in corporate governance, the requirement tasks auditors to go beyond the traditional auditor's duties of testing controls and substantive testing to attesting or vouching that the controls are sound and working well. Traditionally, this has been the role of management. Implicit in this responsibility is the notion that auditors cannot be passive checkers of company accounts and providers of opinions. Has the requirement to produce this report improved both the auditor's work and the management through effective internal controls? One of the basic premises underlying Institutional theory is that “organisations” are socially constructed, and that they are subject to pressures which influence the design and operations of their structures (DiMaggio, 1983). Under SOA, the constant reminder of the presence of the SEC, the PCOAB and the Department of Justice (DoJ) in the shadows, is meant to pile pressure on management and auditors to behave well within the governance system. (Coercive isomorphism).

3.6.5 Normative Isomorphism

Jones (2010) describes normative isomorphism as the direct or indirect adoption of norms and values from other organizations in the environment. This can occur through employee movement between organizations or through participation in industry, trade, and professional associations. Normative isomorphism is driven by the need for legitimacy and survival (Scott and Meyer, 1983). Organisations are influenced by normative pressures placed upon them, which often come from regulatory bodies such as the state (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Zucker, 1987). To become isomorphic with these institutional expectations, organisations must make changes to their structural arrangements (Slack and Hinings, 1994). DiMaggio and Powell (1983) suggest that normative isomorphism is primarily rooted in professionalisation, which occurs through the transmission of norms by professionals and the development of professional networks.

The two sets of companies – UK-only listed and UK SOA compliant might not necessarily subscribe to the same professional rules; however, they all subscribe to accounting rules as prescribed by the regulatory bodies. Hopwood (1979) suggests that for accounting and reporting systems to be effective, they must reflect the context within which they operate. While it cannot be denied that all UK-listed companies must subscribe to and adhere to the UK corporate governance code, thus making them normatively similar, there is an external element of US corporate governance law which requires all UK companies listed in the US major markets to comply with. This requirement has been documented as posing an extra burden on those UK companies listed in both UK and US markets. The compliance thus sets the dividing line between these two sets of companies which makes them non-isomorphic normatively.

3.7 Decoupling

Decoupling is defined as the discrepancy between a formal structure and actual practices within an organisation (Tilcsik, 2009). Organizations decouple their proper construction from their creation exercises when institutional and task environments are in struggle, or when there are conflicting institutional tensions. Decoupling empowers organizations to look for the authenticity that transformation to justified legends gives while they take part in specialized 'the same old thing. While decoupling is a central thought in institutional theory, it has gotten moderately minimal academic consideration (Tilcsik, 2009). However, this pattern is by all accounts turning around. We survey the empirical research that has refined the idea of decoupling and the elements that have been found to anticipate or intercede this reaction to institutional strain for congruity. Notwithstanding the centrality of isomorphism and decoupling inside the institutional theory and their nearby hypothetical parentage, little consideration has been dedicated to analysing the manner in which they connect. We perceive that this nonappearance accommodates a few fascinating future exploration roads; for example, whether the simplicity of decoupling inside an organizational field influences the probability and speed of institutional isomorphism, or whether decoupling is more probable in a heterogeneous or mature standardized climate (Baker, Bedard and Hauret 2014). A productive observational and hypothetical exploration plan is to explain the connection between isomorphism and decoupling under various field conditions.

3.8 Chapter Summary

Institutional theory offers a great way to understand the workings and changes in organisations. This study could benefit from Gidden’s structuration theory and institutional theories. However, with the fundamental basis of Giddens's

structuration theory being the identification of the relationship between the individuals (human agency) and the social structure (traditions, institutions, moral codes and established ways of doing things) and the interactions between them, which then places emphasis on human agency, shifts the focus of the discussion from institutions themselves. Neo-institutional theory helps us understand organizational behaviour as situated in and influenced by other organizations and wider social forces—especially broader cultural rules and beliefs. The focus was on the construction of a broader common cultural values of the actors of organisational field encouraged organisational isomorphism. Institutional theory is based in social constructionism of Berger and Luckman (1966). Berger and Luckman assert that social groups and individual persons who interact with each other, within in a system of social classes, over time create concepts of the actions of each other, and that people become habituated to those concepts, and thus assume reciprocal social roles. That when those social roles are available to and for other members of society to assume and portray, their reciprocal, social interactions are said to be institutionalised behaviours. In that process of the social construction of reality, the meaning of the social role is embedded to society as cultural knowledge. Institutional theory has developed over the years with some branches moving closer to behavioural theory (Greve and Argote, 2015), and Wezel and Saka-Helmhout, (2006) opine that the direct discussion between these perspectives has been started by researchers who have concluded that the organizational change processes examined by behavioural theory are influenced by the institutional context. The SOA focus on institutions as well as human agency and this make institutional theory more suitable for this study. Institutional isomorphism offers different perspectives of what can cause management to institute changes in their

organisations. Whereas competitive isomorphism deals with the pressures of the market whereby competitive forces of the market force management to institute changes in their organisations in order to keep abreast with the competition, there is also the urgent need to maintain legitimacy and survival in the market, which often leads to mimetic practices where companies emulate some practices of those perceived ‘successful’ ones in the market. The environments, both at the national and international level, create coercive isomorphic pressures. UK-based companies that are publicly listed in the US and adhere to the regulations of the SEC are obliged to comply with the rules of the SOA. Consequently, these UK firms listed in the US are compelled to disclose specific information in their annual reports, known as the Form F-20, under Section 302 and 404. The question is to what extent has this pressure from the US made them better in terms of corporate disclosures than usual? A related inquiry is whether UK businesses not present in US markets, and consequently not adhering to its requirements, have been affected by the disclosure standards of their UK counterparts that are listed in the US. This is a question that can be investigated through empirical means, using institutional theory. Hannan and Freeman's (1977) theory of isomorphism suggests that organizational decision-makers may adopt similar practices due to learning appropriate responses and modifying their behaviour accordingly. DiMaggio and Powell defined an organizational field as “those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services or products” (1983: 148).

Whereas both theories, structuration and institutional and offer better lenses through which this study could be undertaken, we will however, adopt the institutional theory

as a framework due to the following documented strengths. Institutional theory considers a comprehensive set of organisational dynamics including the institutional environments and the ceremonial structures that actors within this dynamic display (Cohen et al 2010). It recognises the importance of professional (management and auditors) regulation in the isomorphic reproduction of social structures (DiMaggio 1983, Suddaby et al 2007) and stresses the interaction between the evolution of professional regulation and regulatory power of the state (DiMaggio 1991). The interdependent development of both the state institutions and professional regulatory institutions is a significant element in institutional transformation, as noted by DiMaggio (1991), and is increasingly employed to comprehend the mechanisms of globalization, as highlighted by Gullen (2001).

CHAPTER FOUR

RESEARCH METHODOLOGY AND METHODS

4.1 Introduction

In order to obtain dependable findings in a study such as this, it is crucial to meticulously identify and choose appropriate research methods that will aid the researcher in attaining the set objectives. These methods are particular procedures that are utilized to gather and examine data. Burrell and Morgan (1979) argue that the selection of a research methodology framework assists the researcher in generating knowledge. This chapter will detail the research methodology and techniques that will be employed to collect secondary data and achieve our stated goals. The chapter is structured as follows: 4.2 research design, 4.3 research philosophy, 4.4 research paradigm, 4.5 content analysis, 4.6 sample and sampling technique, 4.7 data collection, 4.8 textual analysis, and 4.9-chapter summary. It will discuss the research design, research philosophy, research paradigms as well as research methods to be used, including the choice, data sources and collection methods, data analysis techniques as well as the research paradigms.

4.2 Research Design

Saunders et al. (2012) define research design as a general plan to answer a research question. As a systematic approach to conducting a scientific inquiry, it brings together several components, strategies, and methods to collect data and analyse it. McCombes (2019) describes research design as the plan of how the researcher aims to answer a set of questions. This is often a framework which

includes the methods and procedures to collect, analyse, and interpret data. There are six common qualitative research designs: phenomenological, ethnographic, grounded theory, historical, case study/ content analysis and action research. The design of the research does influence the type of data to be gathered and the results expected (Creswell et al., 2018). The impact studies of SOA have been approached from the positivist's perspectives. All the studies surveyed used predominantly quantitative methods employing tools and techniques such as secondary data, regression, event study etc. to arrive at their conclusions. Whilst the methodological strengths of the quantitative approach cannot be overstated, because independent data is used to make judgments, it ignores another factor, which we think is very important, which is how the SOA is influencing disclosures narratives through the actions of corporate executives. By focusing on corporate disclosures and examining the contents, it becomes possible to understand how the SOA is influencing corporate reports in the UK. The SOA specifically places onerous responsibilities on both the CEO and CFO in financial reporting and internal controls in terms of both certifications and attestations under section 302 and 404. The inquiry at hand is the degree to which the SOA has impacted modifications in internal controls and control procedures within UK firms that are listed in the US. The financial fraud that precipitated the SOA was not necessarily due to a lack of internal controls, but rather the inadequacy of robust and effective internal controls and control procedures that permitted a small group of avaricious executives to bypass these measures (Wells, 2006). The SOA was enacted to curb corporate misconduct and fraudulent activities, and to re-establish investor trust in the market. Viewed from this angle, this thesis proceeds that any attempt to evaluate the impact of the SOA will be incomplete without research into how it (SOA) has impacted the

controls and control procedures, and to determine whether the SOA has made UK companies (compliant and non-compliant) do something different from the comply or explain principles that exists in the UK?

The objective of our study is examining the effect of SOA 2002 on UK corporate reporting especially in the post implementation period using qualitative methodology to advance the understanding of how SOA is impacting or has impacted on UK companies and to achieve this, we shall employ content analysis method due to its methodological strengths which would be set out below. The study will critically examine the qualitative disclosures in four major areas in the corporate governance section. These include the introduction sections of corporate governance section, internal control reports and disclosures, audit committee disclosures and reposts and external audit reports and disclosures. The rationale for their selection is that they have impacted directly by sections 302 and 404 of SOA disclosure requirements. Based on disclosure control and corporate responsibility required under Sections 302 and 404 of SOA, we ask the following research questions.

1. To what extent has corporate governance has been influenced under SOA
2. To what extent has internal controls information improved under SOA
3. To what extent has SOA has contributed to the improvements audit committee performance over the study period, and how these has affected the fortunes of the affected companies
4. The extent to changes in the quality of external audit reports incorporating the procedures and audit opinions under SOA.

4.3 Research Philosophy

Research philosophy guides the direction of the researcher and determines the very thought of the researcher. Specifically, it guides the researcher on how knowledge is developed (Saunders 2012) and predetermines the overall theoretical framework, results and contributions of a given study (Moon et al., 2018). Hopper and Powell (1985) opine that there are four dimensions of social science, and these are ontology, epistemology, human nature and methodology. The choice of any philosophical approach such as objectivism, constructivism, for instance, drives the set of data or dissemination goals (Dougherty and Slevc, 2019).

4.4 Research Paradigms

Research in social science has three key paradigms. According to Burrell and Morgan (2009), these are positivism, critical, and interpretive approaches. Epistemology is that branch of research philosophy which deals with theories of knowledge, whereas ontology is theory of the reality. Therefore, the relation between knowledge and the context of its production becomes important factor in any research. This study follows the interpretive paradigm, which proceeds that all knowledge is dependent on human practices and can be constructed in and out of the interaction between humans and their world within a social context (Crotty, 1998).

4.4.1 Interpretive and Constructivism Paradigms

Interpretivism and constructivism are interconnected given that they allow the phenomenon to be to be put into their social context and investigate them according

to their relationship with human nature (Harrison et al, 2017). This study aims to explore the extent to which management of UK listed companies have responded to their SOA requirement. We shall study to see how they have responded the requirements of this Act, and how these has led them to make changes in the way in which they make disclosures and interpret these changes in behaviour using the interpretivist paradigm.

4.5 Content Analysis

Content analysis, which was initially employed in communication research after World War II (Morgan 1993), is a document analysis method that enables the researcher to examine theoretical issues and augment their comprehension of the data (Elo and Kynga, 2008). One of its objectives is to impartially depict the information conveyed by descriptive data. Holsti (1969) defines it as “any technique for making inferences by objectively and asymmetrically identifying specified characteristics of messages” (Holsti, 1969, p.14). As a research technique primarily designed for quantitative data analysis, the method has been modified to accommodate qualitative content analysis. In this regard, Krippendorf, (2012) elucidates it as a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contents of their use. As a scientific tool, content analysis also provides new insights, increases a researcher’s understanding of phenomena, or informs practical actions. (Krippendorf, 2012).

Content analysis is a research methodology that allows for replicable and valid inferences to be drawn from text-based data (Krippendorff, 1989). It involves the analysis of written, verbal, or visual communication messages (Cole, 1988) and is considered by researchers to be a flexible approach to text analysis (Cavanagh,

1997). Content analysis encompasses a range of analytic methods, from intuitive and impressionistic analyses to rigorous and systematic textual analyses (Rosengren, 1981). Additionally, it can be applied to both qualitative and quantitative data analysis in a deductive or inductive manner (Elo and Kyngas, 2008). This adaptability allows the researcher to choose the most appropriate approach based on their theoretical and substantive interests and the research problem at hand (Weber, 1990). Content analysis can also complement other research techniques and provide valuable insights into their findings. For example, Krippendorff (1989) found that a content analysis of student responses produced the same results as an attitudinal questionnaire completed by the same students. This enhances analysts' confidence and justify their usage. Moreover, content analysis guarantees objectivity by ensuring that all data analyses are treated equally, regardless of who conducts them, when, or where (Krippendorff, 1989). In this study, content analysis will be employed to scrutinize the financial reports of the chosen companies between the years 2000 and 2017.

According to Columbia Public Health (2022), the following advantages include providing valuable historical and cultural insights over time.

- It permits the researcher's closeness to data
- It permits direct examination of communication using text
- Provides great insight into human thought and language use
- It is readily – easily understood by audience and inexpensive approach
- It provides an unobtrusive means of analysing interactions
- As a method, it is used in both qualitative and quantitative research,

4.5.1. Content Analysis and Annual reports

Numerous studies in the finance and accounting field have investigated the dissemination of information to the capital markets and the swiftness of the market's response to such information. Nevertheless, Jegadeesh and Wu (2013) have noted that the majority of these studies concentrate on exploring the dissemination of quantitative information, such as accounting data found in financial statements. These scholars argue that companies present a vast amount of qualitative information in their annual reports, while sell-side analysts and the financial media also offer extensive descriptive quantitative information about these firms. Despite this fact, according to Jegadeesh and Wu, very few studies have delved into how investors interpret qualitative information and whether they effectively incorporate that information into stock prices.

There is a dearth of information concerning how investors interpret descriptive information such as corporate governance reports, due to the difficulty of quantifying such information (Jegadeesh and Wu (2013). Wildemuth and Zhang (2009) opine that qualitative content analysis does not produce counts of statistical significance; instead, it helps uncover patterns, themes, and categories important to a social reality. In this study, the main source of data for use is the corporate governance section of annual reports. The section contains qualitative information about corporate governance, and these come in the form of reports. Content analysis is about 'messages' and it is a technique that uses messages rather than human beings as a unit of analysis (Dugherty, 2005). Content analysis has been used to conduct studies on annual reports intellectual capital researchers as they are good instruments to measure comparative positions and trends in reporting (Guthrie et al., 2004). These researchers have used annual report to investigate firms' intellectual capital reporting practices (Guthrie et al., 1999, Olsson, 2001). For

instance, Guthrie and Petty (2000) carried out content analysis of annual reports of 20 largest Australian listed companies (by market and capitalization) to understand the extent to which these companies report their intellectual capital using a framework developed by Sveiby (1997) and find that key components of intellectual capital are poorly understood, inadequately identified, inefficiently managed and inconsistently reported.

Jegadeesh and Wu (2013) present a whole new approach in content analysis by quantifying documents tone of 10-Ks. The study finds that there is a significant relationship between the measure of tone of the 10-Ks and market reaction to both their negative and positive words. Olsson (2001) examined the annual reports of 18 largest Swedish companies, which were selected based on market capitalization by developing five elements to determine the level of human capital reporting. The study found that none of the company used more than 7 per cent of reporting space to deliver human information in their annual reports. Extant literature has reported extensively and theorized largely on voluntary disclosures in terms who, what, how much, which often focus on mechanistic and reductionist analyses of texts which often fail to adequately deal with issues of quality, meaning, and accountability. The positivist bias, with a focus on rigour, tend to sacrifice interpretation and of understanding of disclosure behaviour (Tregidga, Milne and Lehman 2012).

Whereas prior studies have focused on disclosure of voluntary information such as the corporate social responsibility reports, Beattie (2014) turns attention to mandatory disclosures and finds that narrative disclosures are superior under a mandatory regime at both capital markets and non-capital market levels. Aerts (2013) posits that narrative disclosure under mandatory regimes have affected credit ratings, share price, and debt markets conditions as the markets are able to

detect financial distress of the reporting entities through these narratives. The content for our data comes from narrative disclosures on the 4 areas of corporate governance, internal controls, audit committees and external audit reports. Consistent with Beattie (2014) we use these disclosures as a basis to examine changes in the narrative disclosures in the pre- and post SOA period in order to determine whether there have been any changes or not, and then attempt to explain why these changes occurred or did not occur.

4.5.2 Conditions for Content Analysis

The use of content analysis methodology offers great opportunities for our study. Law requires companies to produce annual report in which they are to disclose all information- financial and non-financial to the public. What is disclosed is viewed as information which may comprise qualitative text (Beattie, 2014). For those listed in the US and compliant with the SOA, Sections 302 and 404 makes additional reporting requirements as part of the financial report to be submitted to the SEC. These are meant to improve corporate transparency whilst fulfilling the requirement of the law. Our analysis is cantered on examining these reports. We will investigate the changes in volume, the verbs chosen to describe the analytical procedures utilized, and any additional information disclosed that was not previously available, as well as the overall tone used (whether positive or negative) during the specified period and how the market responded to them.. Past SEC Chairman William Donaldson is one record to have said that improving the tone at the top was one of the objectives of the SOA, though not explicitly stated in the SOA. The Nature of the tone at the top would depend on what motivates management. A compliance- based approach like the SOA, is premised on the agency theory's assumption that managers act in their own interest, and therefore seeks to mandate desirable

behaviour through elevated monitoring and reduced managerial discretion (Lail et al., 2015), as we have in sections 320 and 404. It must be borne in mind that management are required by the SOA to make an honest representation of the steps taken in the management of their internal control system and then to certify their state at the time of reporting. This has a significant implication for the information presented in the financial report. If the controls are strong, then all things being equal, the financial transactions would have been recorded in good health. Similarly, external auditors are also required to attest to the soundness of the internal control system as part of the audit work, not as assurance service. By jointly certifying and attesting to the internal control system, both agents (management and auditors) are declaring to the SEC that they agree or disagree to the state of the financial information being given to the market.

In this regard, the market reaction to such reports is also very important. For example, Tetlock (2007), Feldman et al. (2010) and Loughran and McDonald (2011) examine how the market reacts to the tone of newspaper articles and statutory filings. Whereas Tetlock (2007) and Feldman et al. (2010) hypothesize a linear relation between returns and proportion of positive and negative words, Li (2006) finds similar relations in 10-K filings by focusing on two root words 'risk and uncertainty'. Typically, this branch of literature classifies some words as positive or negative words and hypothesizes that market reaction is a function of the relative number of positive, negative and total words in one or two root words: risk and uncertainty. The SOA also requires the disclosure of information relating financial material weaknesses in financial reports and all things being equal, it is expected that such disclosures would include words such as 'risk' and 'uncertainty'. This also provides another justification for the use of content analysis to examine the impact

of SOA on UK compliant companies. As a technique, for gathering data from annual reports, (Guthrie and Abeysekera 2006), the success or otherwise of content analysis depends on certain technical requirements being met (Guthrie and Matthews, 1985). A few of those would be discussed here.

4.6 Sample and Sampling Technique

We obtain the list of all the UK companies listed on the US markets from 2000 through to 2017 from the database of Bank of New York Mellon's website. After converting the file into an excel format, we pivoted data to make it easier for our study. The major US markets are the New York Stock Exchange (NYSE), the NASDAQ, for technology-based companies and Over the Counter (OTC) where all companies not listed in either NYSE or Nasdaq can be listed. We find that there are 298UK companies listed in the US as 2020. Of this figure, 201 companies were listed on the OTC, 23 listed on Nasdaq, 27 on NYSE and 19 on others.

Before applying random selection technique, the study decided to segment the US market listing into three- New York Stock Exchange (NYSE), the National Association of securities Dealers Automated Quotations (NASDAQ) and the Over-the Counter (OTC) markets. Companies listed on both NYSE and NASDAQ must comply with the SOA, where are companies listed on the OTC are not necessarily required to comply. This enabled a comprehensive view of the population of UK companies listed in the US to enable generalisation to be made. First, we focused only on the companies listed NYSE and Nasdaq as they are those likely to comply with the provisions of the SOA 2002., and then selected some companies from the OTC list to see whether other companies who are not obliged to comply are voluntarily imitating their counterparts. For all these companies, we examine the

year of listing with the view to capturing the reporting characteristics before the SOA was passed and selected only those with listing prior to or the year 2000. Using a search tool, we separated delisted UK companies and focused on those with continued listing to 2020. From those with continued listing, we further segregated them into those who raised capital from those that did not raised capital. Capital raising is important because it is the main reason why most foreign companies list in the US. There are 298 UK companies listed in the US, which comply with the SOA obtained from Bank of New York Mellon's websites also known as the American Depositary Receipts (ADR) listing database. However, the study will focus on those who fully complied with the requirements of Sections 302 and 404. The study would not use capital raising as a method of selecting the sample because we find that only a handful of the selected companies raised capital. Out of the 298 companies listed with continued listing, 68 had raised capital from the US. The next step entails selecting from that list those who did not raise capital but duly complied with the SOA over the given period. This approach would enable a broad range of companies to be examined.

For UK- only listed companies, we selected 5 companies across the spectrum. These companies are all listed on the major UK Stock Exchanges as a first criteria. Next we seek to find companies that were listed prior to the SOA and some that listed after it. This would enable a comparison of how these companies have behaved in their disclosures in the pre and post SOA period. Finally these must have filed accounts at least from 2000 or earlier with the LSE. To obtain financial reports for the period of 2000 to 2017, I used the Filing Expert from the University of Essex library, an invaluable source for financial reporting information for all the major companies in the world. The basis of selection is a listing on London Stock

Exchange FTSE100-350 and the company must be headquartered in the UK and does not have listing in the US. These must also have been in existence prior to 2000 and must have annual reports deposited on their websites as required. We apply a random selection method and select 5 companies who meet our criteria. Random selection, which is simple and lacking in bias, is used in studies that aim at making generalisations about population.

This study's aim is to make generalisation about corporate governance disclosure practices of UK only listed companies, not compliant with the SOA and UK companies listed in both US and UK and the approach adopted provides better epistemological and ontological basis to answer the research questions.

4.7 Data Collection

The SEC Form 20-F is a form which is required by all foreign companies listed in the US also known as foreign private issuers (FPIs). Issued by the Securities and Exchanges Commission (SEC), the Form 20-F must be submitted by all "foreign private issuers" within four months of the end of a company's fiscal year or if the fiscal year-end date changes.

The purpose of Form 20-F is to standardize the reporting requirements of foreign-based companies, which will enable investors to evaluate these investments side-by-side domestic stocks. The form often contains a foreign company's annual report with financials.

The New York Stock Exchange (NYSE) also has authority over the Form 20-F. NYSE regulations mandate companies to post copies of their annual reports on their website, inform shareholders of the release through an official press release, and make the posting available in English. Shareholders may also request a free hard

copy of the audited financial statements, which should be provided in a reasonable amount of time. If a company fails to file the Form 20-F, it may face penalties such as delisting, among others, as listed in section 802.01E. According to Krippendorff (1989), the most appropriate source of data for content analysis is typically texts that are conventionally associated with meaning. Financial information is transmitted through written narratives, and these narratives can be found in corporate annual reports, etc. (Jones et al., 1994). The relationship between text and context should consider how context (in the message context, for example Section 404 requirement) in the social and political context, and in the organizational context, such as the control culture, can affect the production of these organizational messages. In this vein, Tregidga et al (2012) suggest that a level of understanding of the production of organizational reporting and communication becomes imperative for the achievement of holistic insight into organizational reporting and communication in relation to its quality and meaning and the discharge of accountability (Tregidga et al., 2012) To achieve this, research into 'what is said and what is not said' and in particular 'how it is said is required. Language used in the transmission these reports have often not given the needed attention in accounting research. Nevertheless, in an interpretive study such as this, where been ignored at the expense of 'dataism' (Alvesson and Karreman, 2011). Arguing against social science obsession with data, Alvesson and Skolberg, (2009), opine that, there are good reasons to move away from dataism/empiricism in favour of a realisation that data are fused with theory and interpretation in contemporary social science and philosophy of science. They assert that such a likeness is an outcome of the boundedness of human rationality. That human beings like things that are fun and fashionable such as data manipulation. In this study, we use corporate governance

reports produced by management to respond to the SOA and examine the manner in these reports are written. These reports are produced for the Securities and Exchanges Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB). In effect, the compliant companies produce these reports to satisfy the requirements of the SOA. The next reason is legitimacy with the markets. The section 404 and 302 reports provide assurance to the market and other stakeholders about how the compliant companies are being managed, which also mean that management would be careful to ensure that the contents of the report, fits their organizational context. The message and the meaning conveyed can have implications on the reporting entity in the form of share prices, credit rating, analyst perceptions – all these can have dire consequences for it. Finally, the message (contents) of these reports, like all other CEO/CFO communications, engenders stakeholder engagement or other dimensions of discourse or analysis which go beyond the text itself (Tregigda, 2012). These among others, provide some of the compelling reasons why content analysis methodology has been adopted for this study.

4.7.1 Procedures

Existing positivist studies uses natural language processing (NLP) methods to study annual corporate reports use Form 10K produced by US companies, either in total or focusing on MD&A (Beattie, 2014). The US federal laws require domestic issuers to submit an annual report on Form 10-K, which provides a comprehensive overview of the company's financial condition in addition to the audited financial statements. Similarly, foreign companies listed in the US must submit an annual report on Form 20-F which must provide comprehensive overview of the company's financial condition in addition to the audited financial statements.

The section 302 focuses on the disclosure of controls and procedures as well as personal accountability of signing officers. It requires the CEO and CFO to personally attest to the reliability and accuracy of the financial contained in the Form 20-F. We use this section to examine the nature and extent of personal accountability demonstrated by management in the disclosure controls procedures in both the pre and post SOA period for both UK SOA compliant and UK -only listed companies. Section 404 on the other hand, mandates all publicly traded companies in the US to establish a sound system of internal controls. Management must maintain and test these to ensure they are working well, and it also requires an entity's external auditor to attest to the proper functioning of the internal control system. To capture the import of these sections (302 and 404) we perform the following steps. From the corporate governance sections, we select the following for our analysis. The corporate governance introductions, internal control disclosures, audit committee disclosures and external audit reports. We extract the prescribed sections from the financial reports and Form 20-F use them as a basis of analysis.

4.7.2 Data Processing

Given what Sections 302 and 404 of the SOA requires managements certification and attestation of financial information in the form of reports, any examination would and must begin with these reports. This provides a clear and objective justification for the use of content analysis methodology. Granted that every intention of management must be transcribed in the 20- F filing report for all foreign listed firms, the use of interviews, for instance, to obtain further information from management in this type of study could be deemed counter-productive, because one would assume that everything management wanted to say about the SOA would have been captured by the reports. In accordance with efficient market hypothesis, all

information about the SOA requirements must be provided in these reports and hence the use of content analysis. We take the view that SOA focus is on disclosure and that means that users of accounts should be able to read the financial reports without any help of technology and be able to see differences in the quality of presentation. Subsequently, we manually read each section extracted and read them line by line, noting down any changes in structure, content, choice of words, themes before and after SOA. Moreover, the advancement in software technology such as NVivo (Tashakkori and Teddlie 2003) and Lancsbox (Brezina, McEnery, and Wattam, 2015), etc. have also been used in content analysis in qualitative studies. Software for content analysis searches text records for words, phrases, expressions, or statements that are considered by researchers to reflect the domain of interest of the research question (Tashakkorie and Teddlie, 2003). The use of Lancsbox can be used for many contents analysis purposes. We used it specifically to track collocation, key words in context (KWIC). Collocation is defined as a systematic co-occurrence of words in text identified statistically. Collocation graph provides visual display of the association between a node (a keyword), and it collocates. Brezina, McEnery, and Wattam (2015) suggest that a colocation network serves as a graphical representation of intricate connections within language and discourse, and that the potential to uncover concealed messages and their meanings is limitless with the use of such software. Another tool employed by Lancsbox is the concordance, also referred to as KWIC, which exhibits a single line that showcases a keyword in context (KWIC), acting as a node or search term, with its surrounding words on the left and right. This format is commonly used to demonstrate language usage examples found within a document, where the search

term is in the centre and several words of context are presented on either side (Brezina, McEnery, & Wattam, 2015).

4.7.3 Unit of Analysis

There must be a clear unit of analysis – that is the categories of classification must be clearly and operationally defined. The unit of analysis refers to a specific segment of content that is characterized by placing it a given category (Holsti, 1969), and in the accounting literature, Grey et al. (1995) opines that a debate has arisen over the use of words, sentences or portions of pages for coding and suggested that sentences are preferred in written communication if the task is to infer meaning. Milne and Addler (1999) also posit that using sentences for both measurement and coding provide complete, reliable and meaningful data for further analysis. Another example of unit of analysis is the use of paragraphs. (Guthrie and Abeysekera 2006) opine that the paragraph method is more appropriate than word count for drawing inferences from narrative statements because meaning is commonly established with paragraphs than through reporting of a word or sentence. An organization disclosure index is measured by the amount of information disclosed.

No	Company Name	Venue listed – US	Venue listed - UK	Sector
1	Sainsbury	n/a	LSE	Retail
2	Tesco	n/a	LSE	Retail
3	M&S	n/a	LSE	Retail
4	Admiral	n/a	LSE	Insurance
5	SSE	n/a	LSE	Energy

TABLE 2 TABLE OF INFORMATION OF SELECTED UK COMPANIES

Company Name	Venue Listed - US	Venue listed - UK	Sector	Year of registration
BAE Systems	NASDAQ	LSE	Media	1997
Harbour Energy	NASDAQ	LSE	Pharma & Biotech	1992
JD Weatherspoon	NASDAQ	LSE	Software and Computers	2000
Rentokil Initial	NASDAQ	LSE	Travel and leisure	1997
Johnson Matthey	NYSE	LSE	Banks	1997
Greencore	NYSE	LSE	Fixed Line Telephone	1984
Centrica	NYSE	LSE	Insurance	2000
Associated British Foods	NYSE	1.1	Media	2000
BP	NYSE	1.6	Oil and Gas	1997
BT	NYSE	1.5	Services	1999
Carnival	NYSE	1.1	Travel and leisure	2000
National Grid	OTC	1.4	Aerospace and Defence	1998
NatWest	OTC	1.2	Chemicals	1998
Prudential	OTC	1.4	Food and beverages	1999
Pearson	OTC	1.1	Food Products	1998
WPP	OTC	1.4	Gas, H2O	1998
Trinity Biotech	OTC	1.1	Oil and Gas	1997
Ryanair	OTC	1.5	Support Services	1994
Amarin	OTC	1.5	Travel and Leisure	1997
Keywords studios	OTC	1.1	Software and Computers	1993

Table 3 Selected Companies listed in the US

This study meets this requirement as we seek to examine reporting requirements of SOA Sections 320 and 404. Issuers are required to publish information in their annual reports concerning the scope and adequacy of the internal control structure and procedures for financial reporting. These statements shall also assess the effectiveness of such internal controls and procedures.

This assessment must include disclosure of any “material weaknesses” in the company’s internal control over financial reporting identified by management. It stipulates that management is not allowed to conclude that the company’s internal control over financial reporting is effective if there are one or more material weaknesses in the company’s internal control over financial reporting. These reports provide ample opportunity for unit of analysis.

4.8 Textual Analysis

As an emerging technique in accounting and finance, textual analysis and its corresponding taxonomies are still somewhat imprecise and can thus be considered as a subset of qualitative analysis and can often be categorized as targeted phrases, sentiment analysis, topic modelling, measures of document similarity or readability (Loughran and McDonald 2016).

Loughran and McDonald (2016) find that the Form 10-K which is the quarterly reports US listed companies are supposed to lodge with the SEC has received considerable attention and well documented in the accounting and finance literature on textual analysis is the 10-K annual filings with the SEC. We find that the Form 20-F, which is the report required by the SEC of all foreign companies listed in the US and known as Foreign Private Issuers (FPIs), and comply with the SOA, has not received such attention in literature. We adopt and adapt Loughran and McDonald (2016) approach

to study UK companies listed in the US and compliant with the SOA. We commence by parsing out the annual report and focusing on the mandatory disclosure sections such as corporate governance section, audit committee reports, internal control reporting and external auditors' reports and disclosures. We use Lancsbox (Brezina, McEnery, and Wattam, 2015), a textual analysis software developed by Lancaster University Management School to analyse textual data. It is a powerful tool that provides opportunities to examine textual materials in many ways. We use this software to identify key words in context, in our selected materials as well as the most frequently occurring words. We also used this software to find collocation- which is the type of words which congregate around certain key words whenever they are used in the report. This technique has the power to reveal untended consequences of management disclosure practices. Sarbanes-Oxley Act 2002 is about disclosure- the requirements for management and auditors to disclose information about internal control, for instance, has meant that both parties must disclose accurate information within their reports. We attempt a new approach of content analysis, taking inspiration from, Tetlock (2007), Feldman et al., (2010) Tetlock, Saar-Tsechanky and Loughran and Mcdonald (2011) who all have examined how the market reacts to the tone of newspaper articles and statutory filings. Given that contribution of social science does not lie validated knowledge, but rather in the suggested relationships and connections that had not previously been suspected, relations that change actions and perspectives (Weick,1989), we extend this approach by embarking on another way to understand social reality in content analysis. SOA is all about disclosure: detail disclosure of information by management and auditors to shareholders and investors which had not existed previously. These disclosure obligations provide opportunity for us in a way that had not been captured. Our focus is primarily on language- the choice

of words used in corporate governance reports in the post SOA period, and how these help us understand the motivations of management presenting these reports. Alvesson and Karreman (2011) reports that language use in any social context is used to persuade, enjoy, engage, discipline, criticize, express feelings, clarify, unite etc. Correspondingly, Alvesson and Karreman (2011) provide that vast majority of qualitative work will take greater interest in the level of meaning and will seek to provide space for research subjects to express their opinions in words. They contend that language can be used to convey something beyond itself and that it is essential to also consider how it can be used as a starting point for more extensive, speculative interpretation of other conditions such as behaviours, practices, structures and events, or ideas, values or experiences.

4.9 Chapter Summary

In this interpretive study, we will utilize content analysis methodology to scrutinize qualitative disclosures in four significant domains of corporate financial reporting, including corporate governance, internal control, audit committee, and external audit reports. Content analysis as a research method has several strengths and weaknesses. We have chosen this approach as it enables us to analyse communication using textual data and conduct both quantitative and qualitative analysis. Considering the nature of our research, we needed to evaluate corporate governance disclosures utilizing the text from financial reports (Muttakin, Khan, and Subramaniam, 2015).

We needed a technique which would allow us to make inferences by systematically and objectively identifying special characteristics of messages (Holsti, 1968) produced by managed in corporate governance section of annual reports with the given period.

We believe that users of accounts do not need any sophisticated methods to software to read and understand corporate disclosures. By utilizing the direct examination of textual data, we adopted a user-centric approach to evaluate financial reports. This technique facilitated us in tracking changes and manually coding them to identify variations that occurred before and after the enactment of the SOA. Through this approach, we gained proximity to the data, i.e., the reports, to understand how management responded to the SOA's requirements. The primary benefit of this method is that it allowed us to obtain historical and cultural insights by analysing the pre and post-SOA periods.

Overall, one of the strongest advantages of using the content analysis method is that it is relatively less expensive. The fact that our data originates from openly accessible financial reports makes content analysis a highly beneficial research technique, as outlined in the advantages discussed earlier. Significantly, content analysis is an interpretive and naturalistic method that involves observation and storytelling, relying less on the experimental aspects typically associated with scientific investigations (reliability, validity, and generalizability) (Ethnography, Observational Research, and Narrative Inquiry, 1994-2012). However, there are some disadvantages associated with this method, one of which we found out as we went along. We found that it is an extremely time consuming and labour intensive, regardless of whether one uses software or not. One other disadvantage is that if it is often described as being devoid of context that produced the text as well as the state of things after the text is produced. We managed to counter this weakness by employing as theoretical framework, which enabled us to understand the thought behind the text and how these have been influenced or not influenced by the SOA and finally, how things will happen in the future. We use both manual and data analysis techniques such as Lancsbox to

examine the corporate governance section of both Form 20-F and annual reports to find differences in the narrative reporting pre and post SOA. Some of the potential contributions of content analysis include the fact that it enables us to go behind the text as presented to make valid inferences about hidden meanings and messages of interest (Denscombe, 1998), especially in the social sciences where meanings are central to the understanding of social phenomena (Steenkamp and Deryl, 2007). Drawing inspiration from scholars such as Tetlock (2007), Feldman et al. (2010), Tetlock, Saar-Tsechanky and Loughran, and McDonald (2011) who investigated how the tone of newspaper articles and statutory filings affect market reactions, we take a novel approach to content analysis. Social science's value does not solely lie in validated knowledge, but also in proposing previously unexplored relationships and connections that can alter actions and perspectives (Weick, 1989). Building upon this, we aim to broaden our understanding of social reality through content analysis by introducing a new perspective.

SOA is all about disclosure: detail disclosure of information by management and auditors to shareholders and investors which had not existed previously. We use this opportunity to examine corporate disclosure in a novel way by examining the language, key themes, communication strategies employed by management in their reports to shareholders which enables us to discover patterns in communications by management with users of account. We also examine the changes in audit committee reports and disclosures to see whether there have been any changes to the structure of the reports as well as contents in the post SOA period. We extend this approach to examine the effects of SOA on the work of external auditors to determine whether the new reporting and disclosure requirements under section 404b as well as restrictions on non-audit work have led to any changes in auditors' behaviour and whether the

extensive work required has resulted in a manifest increase or decrease between audit related and non-audit related fees. All these have been made possible due to the methodological flexibility in how to create knowledge in qualitative research. Sarbanes-Oxley Act 2002 is all about disclosure of information to investors to make the right decisions. However, the disclosure control measures as well as the punishments associated with providing wrong or false information means that management and their auditors are expected to be very careful about any information they put out to the public.

CHAPTER FIVE

Analysis of UK SOA compliant Companies

5.1 Introduction

The aim of this chapter is to analyse the selected areas financial reports of UK companies that are compliant with SOA as presented in (Fig 3) to help us understand the extent to which SOA has impacted companies. The financial report is a major document in corporate governance communication instrument, through which management informs shareholders and other stakeholders about how they manage

the company's operations. Communication and effective communication with shareholders are a critical component of agency theory and therefore it is the position of this study that the way management communicates with shareholders plays important role in management accountability to the owners of capital- shareholders. A selection of UK companies listed in the US is provided in table 4.

No	Company Name	Venue listed – US	Venue listed - UK	Sector
1	Barclays	NYSE	LSE	Banking
2	BT	NYSE	LSE	Technology
3	BP	NYSE	LSE	Oil and gas
4	Prudential	OTC	LSE	Insurance
5	National Grid	OTC	LSE	Energy

TABLE 4 SELECTED COMPANIES LISTED IN THE US

The Companies Act 2006 of UK requires management of public companies to provide annual accounts of the companies they manage to shareholders (owners). The annual reports can therefore be classified as an accountability document which is important to the principals (shareholders) as they seek to understand how the agents (management) have managed their investments over the year. The annual report is a very large document with many sections containing financial and non-financial sections and all of which are very important. However, in this exploratory qualitative study, using content analysis methodology, we have selected certain relevant sections of the annual reports which will help us answer the question of how the SOA has influenced UK financial reporting over the years. The key areas selected for this study are as follows

- Introduction sections of corporate governance reports
- The internal control disclosures and reports
- The Audit Committee reports and disclosures
- The external Auditor's reports and disclosures

We shall compare these documents over pre and post SOA using thematic approach to examine the new themes to have been introduced in the financial reports in the post SOA to enable us understand the extent to which financial reporting practices have changed (unchanged) since SOA.

5.2 The Corporate Governance statements

Cadbury (1992) defines corporate governance as ''the system by which company are directed and controlled''. It can also be seen as a web of relationships, not only between a company and its owners, but also between a company and a broad range of other stakeholders (Solomon, 2013). In 2009, the Walker review stated that the main objective of corporate governance is to safeguard and promote the interests of shareholders by establishing the company's strategic direction and selecting and supervising competent management to achieve it. As a result, the corporate governance section is a crucial resource for shareholders to assess how well management has accomplished these objectives on an annual basis. Directors utilize the corporate governance section to inform shareholders about the company's operations. We will examine the introduction sections to determine if there have been any modifications to the content, phrasing, or organization since the SOA.

5.2.1 Style of Presentation

We select the pre and post SOA introduction sections of the corporate governance sections from the financial reports of UK SOA complaint companies. We find that in

the pre-SOA period, companies presented the section in financial reports without sufficient detail as shown in the tables below.

2000	2008
BT's policy is to achieve best practice in our standards of business integrity in all our activities around the world. This includes a commitment to follow the highest standards of corporate governance throughout the BT group. ***This section*** of the annual report describes how ***BT*** has applied the principles set out in Section 1 of the Combined Code on Corporate Governance (the Code). The directors consider that, throughout the year, BT has fully complied with the provisions set out in Section 1 of the Code	***We are committed*** to operating in accordance with best practice in business **integrity,** maintaining the **highest standards** of financial reporting, **corporate governance** and **ethics**. **The directors** consider that BT has, throughout the year, complied with the provisions set out in Section 1 of the 2006 Combined Code on Corporate Governance (the Code) and has applied the principles of the Code as described in this report. This is immediately followed by the profile of all the members of the Executive Board and reports of directors

TABLE 5 2000 BT CORPORATE GOVERNANCE INTRODUCTION SECTION

2000	2008
Corporate governance, the system by which companies are managed and controlled, is a topic of great importance, both to the Directors of a company and its shareholders. Over the last few years, ***guidelines and***	**Our people** Barclays aims to provide a safe working environment in which employees are treated fairly and with respect, encouraged

codes have been developed culminating in the publication in June 1998 of the Combined Code – Principles of Good Governance and Code of Best Practice	to develop, and rewarded on the basis of individual performance. **We** are committed to ensuring equality to all employees on the basis of merit. Discrimination, bullying or harassment of any kind is not tolerated. **Our** Guiding Principles set out the values that govern how **we** act. They are: i) Winning together – Doing what's right for Barclays, ***our teams*** and ***our colleagues***, to achieve collective and individual success. ii) Best people – Developing and upgrading talented colleagues and differentiating rewards – Doing what's needed to ensure a leading position in the global financial services industry. iii) Customer and – Understanding what ***our customers*** and client focus clients want and need – And then serving them brilliantly. iv) Pioneering – Driving new ideas, especially those that make ***us*** profitable and improve control – Improving operational excellence – Adding diverse skills to stimulate new perspectives and bold steps v) Trusted – Being **trusted** is the bedrock of a successful bank – Acting with the highest levels of ***integrity to retain***

	the trust of our customers, external stakeholders and our colleagues – Taking full responsibility for **our** decisions and actions.

TABLE 6 BARCLAYS BANK CORPORATE GOVERNANCE INTRODUCTION SECTION

2000	**2008**
BP's board policies recognize that the board has a separate and unique role as the link in the chain of authority between the shareholders and the group chief executive. In addition, they acknowledge in a few ways the dual role played under the unitary board system by the group chief executive and executive directors, as both members of the board and leaders of the executive management.	***Letter from the chairman*** ***I am*** once again pleased to introduce ***our board*** performance report. The report reviews the work of the board and its committees as ***my tenure as chairman*** moves to a close. Over the past 12 years, both the calibre of individuals who have served on the board and our system of governance has ***stood us*** in good stead. The strong set of principles on which we base our governance framework, which include clarity of roles, separation of powers, independence and appropriate skills, remain valid today***. I have*** been encouraged from discussions with shareholders over time that our approach to governance and the dialogue which we continue to have with them is welcomed. This is important ***to us*** and no more so than during the testing times in which we operate. Recent events and the current economic climate have inevitably triggered further debate about governance. ***This I welcome***. The framework of governance does need to be kept under review and, where necessary, challenged by investors, regulators and companies themselves to ensure that the system is delivering. Under such a review ***I believe*** that BP's governance approach can show its strength. It requires active engagement on behalf of the company and investors alike. ***I do not believe*** that our comply or explain system is broken and it is important for us that the principles-based system continues.

TABLE 7 BP CORPORATE GOVERNANCE INTRODUCTION SECTIONS

TABLE 8 PRUDENTIAL CORPORATE GOVERNANCE INTRODUCTION SECTIONS

2000	2008
The directors support the Combined Code on Corporate Governance annexed to the Listing Rules issued by the Financial Services Authority. ***The Company*** has complied throughout the accounting period ended 31 December 2000 with all the Code provisions set out in Section 1 of the Combined Code, except in relation to recognising a senior independent director following the retirement of Michael Abrahams as Deputy Chairman at the Annual General Meeting in May 2000. ***We have*** applied the principles in the manner described below and in the Remuneration Report.	***The Board is responsible*** to ***shareholders*** for creating and delivering sustainable shareholder value through the management of the Group's business. This report explains Prudential's approach to governance, including how ***the Board*** manages the business for the benefit of ***shareholders***, promoting long-term shareholder interest. As a UK company listed on the Main Market of the London Stock Exchange, Prudential is subject to the governance rules set out in the Combined Code. ***The Board has*** approved a governance framework which maps out the internal approvals processes and those matters which may be delegated. These principally relate to the operational management of the Group's businesses and include pre-determined authority limits delegated by the Board to the Group Chief Executive for further delegation by him in respect of matters which are necessary for the effective day-to-day running and management of the business. ***The chief executive*** of each business unit has authority for the management of that business unit and has established a management board comprising its most senior executives. ***The Board*** has overall responsibility for the system of internal control and risk management and for reviewing its effectiveness. The framework setting out the Group's approach to internal control, risk management and corporate responsibility comprises the following:

2000	2008
Corporate governance is the system by which companies are directed and controlled, focusing on the responsibilities of directors and the structure and conduct of the board. The Combined Code of Corporate Governance, which is appended to the Listing Rules of the United Kingdom Listing Authority, sets out Principles of Good Governance and specific provisions relating to governance with which listed companies are required	At this time of global economic turbulence there are many questions being rightfully raised about the ***governance and effectiveness of boards***. ***Good corporate governance***, using the Combined Code as a guide to the components of good practice, is an integral part of the Company's drive to deliver unparalleled safety, reliability and efficiency vital to the well-being of our

to comply, or to explain the reasons for any areas of non-compliance. The Combined Code is based on the report of the Hampel Committee on Corporate Governance, which itself draws on the earlier Cadbury and Greenbury reports. The following statement sets out **National Grid's** application of the Principles of Good Governance and its compliance with the provisions set out in the Combined Code. **Corporate governance within National Grid** **We** are committed to high standards of corporate governance and recognise that sound governance is key, not only to compliance with external requirements but also to the establishment of good business practice throughout the Group. **We** therefore maintain our own code of corporate governance, the National Grid Code of Business Practice. The Code of Business Practice was introduced in March 2000 and is closely modelled on the Combined Code. **We have** operated throughout the year in accordance with the Code of Business Practice and have thus complied with the provisions of the Combined Code, other than with respect to the nomination of a senior non-executive director. **We believe** that the independent Non-executive Chairman is the appropriate point of contact for shareholders with concerns relating to the executive management of the Group and for this reason do not propose to nominate a senior non-executive director.	customers and communities. Delivering sustainable value depends on the ***trust and confidence of all our stakeholders,*** and this can only be earned by conducting our business responsibly. ***Good governance practices*** develop over time, and ***we aim*** to be at the forefront of best practice in order to deliver the Company's vision and, by doing so, promote the success of the business for the benefit of shareholders. ***While I***, with assistance from the Company Secretary & General Counsel, lead the governance process, it is a matter which is reserved to **the whole Board** for consideration, and ***I believe*** that the Board considers such matters in a holistic manner rather than as a separate compliance exercise. By doing so, ***I believe*** that the Board and the Company are well placed to face the challenges arising from this current economic environment. Again, this year, *we have* carried out an in-depth review of the Board's effectiveness and have produced, as ***we have*** done for several years, an action plan to ensure constant improvement. However, an overriding acid test question for a chairman to answer is – does the Board have the breadth of skills and experience to address and challenge adequately the key business decisions and ***risks*** that confront it? Related questions include: do the Nonexecutive Directors attend sufficient meetings and spend sufficient time overall on Company issues to fully understand the business and the risks it faces? Would each Non-executive Director be regarded as capable of challenging management and influencing outturns either in the Board or in its committees? Would the Nonexecutive Directors as a body be capable of overturning proposals from the management which ***they did*** not consider were in the interests of shareholders or where they consider that the inherent risks were in excess of those assessed by management? These questions have concerned ***us in*** our Nominations Committee over the past years as ***we have*** carefully recruited Non-executive and Executive Directors to build the Board ***we***

	have today. ***I therefore believe*** we not only have the Board focused on good governance, but ***we have*** the right Board composition and that the Board works effectively, allowing ***us to*** respond to the challenges of these difficult times. Sir John Parker Chairman

TABLE 9 NATIONAL GRID CORPORATE GOVERNANCE INTRODUCTION

Before the implementation of the SOA, there were no explicit instructions on how management should present the corporate governance section, and the SOA did not provide any specific guidance either. In light of these circumstances, we aim to investigate how companies have presented their corporate governance sections, particularly focusing on the introduction paragraphs of selected companies in the pre- and post-SOA periods. Our analysis will examine the use of language, pronouns, and themes in these respective time frames. We have chosen two time periods for our study: 2002 and 2008. The 2002 period represents the pre-SOA batch of corporate governance disclosures, while the 2008 period represents the post-SOA corporate governance disclosures.

5.2.2 A New Sense Social Responsibility

Based on Figures 3-8, we have observed that prior to the enactment of the SOA, management did not give much importance to the corporate governance introduction section. Typically, the messages conveyed were merely standard business communications with no mention of shareholders or phrasing that emphasized management's responsibilities. However, in 2008, during the peak of the SOA's implementation, we have noticed that management altered the way they communicated with shareholders in the corporate governance section. There was more emphasis on good governance, and this was communicated to shareholders,

who were mentioned and referred to, in the report by management. We find evidence of management conscious attempt to draw shareholders attention to the CG section through careful messaging. In most cases, they provided catchy strapline messages to the section. For example, we note that companies stated phrases like:

'Strong governance and effective leadership...'

The aforementioned communication style was adopted by all companies in our sample, as if they had received a new directive to modify their reporting practices. Additionally, the way shareholders were referenced in the section, which we will discuss in the following paragraph, indicated a shift in tone and emphasis. There appears to have been a catalyst for this change in management behaviour following the enactment of the SOA, and we believe it was the impact of the SOA that caused this sudden, widespread change in behaviour. Moving forward, we will explore the significance of pronouns and their use in major communications.

5.2.3 Pronouns

Sarbanes-Oxley Act 2002 was passed to restore investor confidence in the financial reporting and therefore they market. Part of the confidence building is the way in which those charged with governance of corporations communicate with shareholders. We use the type of pronouns used in these reports as a proxy of quality of communication and a sign or responsible management. According to a major study in narrative reporting by Loughran and McDonald (2019), the usage of pronouns in reports improves clarity (of communication), and their higher counts implies better readability (by shareholders) and can engage the reader in a material way (Loughran and McDonald, 2019) and this finding is supported by Assy, Libby and Rennekamp (2018a), who find that higher counts of personal pronouns increase reaction by

investors (Assay Libby and Rennekamp (2018a). Good quality of information communication with shareholders is indicative of effective management. Financial reports are a means by which managers communicate with the owners of the business. The choice of words used and the manner in which the communication take place become very important aspects of corporate governance.

As the annual report serves as an accountability document, accountability lies at the core of corporate governance. Therefore, this study posits that the way in which managers communicate with shareholders serves as an indicator of robust corporate governance. Drawing inspiration from Loughran and McDonald's (2019) study, we suggest that the utilization of pronouns in corporate reporting reflects proximity, or the degree to which management feels connected (or distant) from shareholders. Hence, the use of pronouns in communications holds great significance.

Communication is an essential part of corporate governance and in such communications with shareholders, the choice of voice adopted – passive or active can help capture the essence to which directors demonstrate close association or distances themselves for the information being disclosed. Hyland (2005) argues that the avoidance of personal pronouns and first-person pronouns, conveys less involvement with a message. Cohn et al (2004) also find that individuals use fewer (more) first person singular pronouns ('I', 'me') when they feel more psychologically distant (close) from the target being described. The choice of tone adopted in a report- active or passive can have implications for transparency, which is one of the principles of corporate governance. Assy, Libby and Rennekamp (2018a) find that managers tend to focus more on the future and use more passive voice and fewer personal pronouns in order to frame poor performance in a positive light.

We therefore examine the sentences to detect the extent to which directors have exercised personal responsibility in reporting to shareholders in their capacity as agents. We first examine the pre-SOA period (1999-2005) corporate governance sections. For example, we search the documents to see the extent to which management made use of pronouns such as ‘we’ ‘I’ to indicate their personal attachment to the message being communicated to the shareholders. Our analysis of the selected UK companies reveals that there was very little use of pronouns in the pre-SOA period, as illustrated in Figures 3-8. Instead, we noticed extensive use of passive verbs and frequent references to "the company" during this time frame. The subject is ‘the board’ as a collective- no one member of the board, i.e., the chair exercising responsibility over the report. However, within the board, individual members have their role to play, and one would have expected the chairman of the board to assert that reporting responsibility in this section when communicating with shareholders as agents. We detect a common reporting cultural practices among UK companies prior to the passage of Sarbanes-Oxley Act 2002. Furthermore, we find that all the sampled reports bore striking resemblance to each other in many respects: they all have few words, few lines and strikingly, no use of active voice, only passive voice. In most cases, the communication piece is directed towards no audience and shows how management were detached from shareholders during the pre- SOA period and this is consistent with the study of Loughran and McDonald (2016). We can infer that management treated communication with shareholders in the pre-SOA in the UK with less seriousness as evidence by the way these sections of the reports were presented regardless of whether these companies were listed in the US or only in the UK.

We turn our attention the post SOA period to examine similar sections of the annual reports. The SOA compliance became mandatory for UK listed firms from 2006 but early adopted was encouraged where necessary. We expect to find changes in the reports of UK SOA compliant companies at least from 2006 onwards.

We initiated our analysis by investigating the UK companies that were compliant with the SOA and promptly discovered a significant shift in their reporting practices. We observed a sudden increase in the use of pronouns and the frequent implementation of active voice, highlighting the collective responsibility of management, which was evident through the use of personal pronouns such as:

'I', 'we', 'us', 'ours' and 'you'.

These characteristics are crucial components of any successful communication. We discovered evidence of management directly engaging with shareholders in a manner that was not present during the pre-SOA era. We have confirmed that the financial report serves as a significant communication tool between management and shareholders, and the presence of these elements signifies a link between management and shareholders. In the post SOA period, we find extensive usage of these in the corporate governance sections. Management referred to themselves as 'we' to denote collective accountability, acknowledging their fiduciary responsibility to shareholders. In many instances in the post SOA CG reports, the chairman would demonstrate leadership by using 'I' in their communication. This was a break from the pre-SOA period where every company simply used the bland phrases such as

'The company'

Owing to the fact that there had not been any new corporate governance instructions for companies to change the way they communicate to shareholders, we believe that

this change in behaviour, evidence by the use active nouns and direct references to shareholders using 'you' as well references to 'shareholders' had been influenced by the SOA focus on good governance. This was a new attempt by management to directly address the owners of equity by way of demonstrating their accountability and stewardship as agents, while acknowledging the rightful place of shareholders as principals and owners of the company. In the absence of any new corporate governance requirement in the UK, we infer that this new way of addressing shareholders has been prompted by the SOA. Afterall, the SOA was passed to restore investor confidence and to achieve that management are required to demonstrate their accountability through the way they communicate with shareholders. The passage of SOA therefore appears to rekindle a new form of awareness on the part of management as agents of principals as evidenced in the communication strategy employed in the corporate governance section of the financial reports and this can only bode well for good corporate governance in the UK.

We expect to see no changes in the way the corporate governance section is reported in UK only listed companies as they are not required to comply with the SOA during the same period (2006-2016). However, we find that company after company report was replete with the use of first-person pronoun such as 'I' and others such as 'we', 'you' and less of passive voice during the same period from 2006-2016 consistent with SOA compliant companies as shown in Figure 2 below. Given the UK only listed companies are not required to comply with the SOA, we find this trend quite interesting as these are seen to mimic the new behaviour of the SOA compliant companies in the same period. We infer that the good practices introduced under SOA is having positive effect on UK only listed companies.

5.2.4 Politeness

Polite in behaviour is essential to social interactions which has been examined in various types of discourse (Jansen and Janssen 2010). Politeness is defined as the use of communicative strategies to reduce conflicts and confrontations, and to establish, sustain and enhance social harmony (Leech and Leech, 2011). It does more than depict external reality by contributing to external reality and negotiating social identities. The SOA was passed to protect shareholders and to bring back investor confidence after the fall of spectacular corporate collapses that happened in the US in the early 2000. As part of winning back investors' confidence, the language of communication could not be excluded from whatever strategy being thought of. Politeness is a fundamental element in financial communication because its usage can promote relationship among different stakeholders.

In addition to the pronouns, we search for further phrases indicating politeness in the corporate governance sections to detect management attitudes displayed when communicating with shareholders. We examine the extent to which use of such affectionate phrases such as 'dear' 'delighted' 'pleased' when addressing shareholders. We find no such word or phrases of endearment was used in the corporate governance introduction sections of all companies in our sample that prior to the passage of the SOA. We searched all the CG reports in the pre-SOA and find no trace of such phrase or phases. Whereas this is not surprising, what our finding tells us is that there was little evidence of 'connectedness 'between management and shareholders and this was taken for granted by all stakeholders both UK and US.

We replicate the search in Post SOA compliance period and find a sudden change in tone of communication. We find that some phrases of endearment began to make their

way into the corporate governance section was started with endearment phrases such as

'Dear Shareholder' 'Dear Fellow shareholders'

Among others, we find these introductory phrases very interesting in the communication strategy of management. These phrases are often used in communications where there is a personal or close relationships. Financial statement being what it is, these phrases are almost alien until the passing of SOA, which is why we believe this is an interesting finding. Furthermore, we also find more use of phrases such as

'I am pleased...', 'we are delighted'

have been used in the CG sections for the first time. Taken together, the sudden change in the tone of management communication with shareholders could not have come from anywhere else apart from management attempt to take advantage of SOA's raised awareness of good corporate governance, which also includes effective communication with shareholders and investors. The presence of such phrases of politeness for instance is a part of the evidence of management change towards shareholders.

5.2.5 Chairman's Signature

The signatures under any major document signify proprietorship, responsibility and accountability. Whereas we did not find evidence of the chairman signature under the corporate governance sections of the financial reports in the pre-SOA period, in the post -SOA annual reports, we find that the corporate governance introduction sections are all signed - off with personal signature of and dated by the chairman of each

company. This is a further demonstration of responsibility and accountability by the chairpersons of these organisation in addition to the effective use of pronouns and phrases of endearment above. The presence of the chairman's signature shows that the reports have not just been churned out by the system, has been carefully written, read and signed by the chairmen, a further proof to shareholders that attitudes have changed towards them for the better. Again, the presence of signature further supports the theory of connectedness with shareholders in the principal – agency relationship. If the chairmen can append their signature on these sections, then it is worth reading perhaps. It also demonstrates trust- trust in the message being provided which should engender confidence of shareholders and other users of the report. What could have accounted for such a sudden change in communication strategy with shareholders? Given that no major regulatory changes had taken place in the UK from the period between 2002 and 2006, apart from the SOA, we infer that it was the SOA that influenced management to introduce such changes.

Overall, it is the position of this study that there has been a significant enhancement in corporate governance demonstrated by the proficient communication between management and shareholders, achieved through the use of pronouns, endearment phrases, and the inclusion of the chairman's signature in the corporate governance sections of financial statements of UK companies listed in the US during the post-SOA period and continuing to the present day. The corporate governance section now presents and reads more effectively in the post-SOA period than in the pre-SOA period.

Dear Shareholder…. Sound corporate governance is critical to our business integrity and to maintaining investors' trust in **us.** Responsibility for good governance lies with **your** Board and directors **and I spend time at Board meetings** and in **our** discussions with executives to ensure there is a strong and effective governance system in place throughout the Group. In this section we shall describe the way corporate governance works in Vodafone. It is embedded both in the way we organize our business, with local boards and audit committee having responsibility over operations…"

"I am **delighted** to welcome… who joined the board in November…"

We are committed to operating in accordance with the best practice in business integrity, maintaining the highest standards of financial reporting, corporate governance and ethics"

*"This has been a landmark year for BT****. I'm delighted*** *that we have a Board with the range of skills and experience, to play an active role in delivering our strategy."*

Firstly, I am delighted *to welcome Mike Inglis who joined the Board in September 2015. Mike's insight and in-depth experience in the technology industry will be a great asset for BT and the Board. Mike is also a member of the Technology Committee. I'm also pleased to welcome Tim Höttges (CEO of Deutsche Telekom) who we appointed to the Board, as a non-independent non-executive director, on completion of the EE acquisition in January 2016. We announced in March that Tony Chanmugam will be stepping down from his role as Group Finance Director and from the Board in July 2016. Tony will move to a short-term role continuing to integrate EE into the group, before leaving later in the year. Tony has delivered strong results during his career at BT, and I'd like to thank him for his*

TABLE 10 BT CORPORATE GOVERNANCE INTRODUCTION

5.3 Audit Committees Before and after SOA

5.3.1 Introduction

Audit Committee (AC) plays important role in corporate governance by providing oversight controls and the quality of financial reporting. In effect, the AC becomes a critical body proving independent reviews of internal controls and serving as checks and balances on each entity's financial reporting system. Sections 404 clearly describes the enhanced role of AC and envisages that the AC becomes the gatekeeper of all financial information that are received by shareholders and the general public.

5.3.2 Style of Presentation

We find that prior to the passage of the SOA, companies did not present separate reports of audit committees' work in the annual reports. Audit committee existed primarily to 'assist management'. This meant that the committees' independence was not amply highlighted. They were mentioned in the corporate governance report as helping to manage control. AC committees' activities were mentioned in a generic form, and this was replicated in all the years prior to the SOA. We find a boiler-plate narrative, the contents of which only highlighted the role that AC plays. We find no detailed description of the actual work done the AC in all the selected sample. Audit committees are reported under the subheading of Accountability and Audit and the words used to present the narrative is strikingly similar even to the references to the number of pages in the prior year's reports. Further, we find that the disclosures explained to the reader what the AC ought to do as opposed to what the committee did within the year. The reader therefore is left to decipher what detail work was done by such an important committee in the governance of these companies.

However, when we find upon examining the post SOA financial reports, it was discovered that there were varying levels of Audit Committee (AC) disclosures among the companies in the sample. Each company had a separate report for their AC, which contained a detailed description of the work done during the period, including any work or procedures undertaken, findings, and measures taken to address any identified problems. These reports also aimed to provide sufficient information to shareholders about the importance of the work carried out during the post-SOA period. Furthermore, the length of these reports was substantial, covering over four pages in some cases.

This was a significant contrast to the pre-SOA period where there were no such reports. Further details about these reports will be discussed in the next section.

5.3.3 Pronouns in Disclosures

Like the CG introduction sections, whereas in the pre-SOA period there were no AC reports as discussed above, we find that in the post SOA period, as seen in figure 3 below, we find a new form of disclosures in the AC reports. We find evidence of extensive disclosure model of audit committee activities which is common among the selected companies. The reports are replete with important collective pronouns as in Fig 3 showing the collective responsibility of the committee in all their work. We also find in this new form of report, immediately following each pronoun 'we' a verb in the past tense - denoting procedures that were undertaken in their course of action to demonstrate to the shareholders that they have been truly independent in their work as a committee. For the first time, we see phrases and sentences that exude confidence in the mind of the user of the accounts. This was not the case in the pre-SOA period, and whereas this study cannot conclude that those activities were not undertaken in the pre-SOA period, our findings suggest that there was no way anyone would have known what work the AC did during those periods until after the passing of the SOA 2002. Our study also finds massive differences in the way the activities of the committee have been disclosed and presented to shareholders. Topics such as the membership composition of the committee, attendance to meeting schedule, activities undertaken during the year, their relationship with external auditors and responsibilities over internal controls and risk management, among others, are quite a departure from the pre-SOA audit committee reports.

Pronouns used in post SOA period AC reports
'As a board, we are ultimately responsible…' Further the collective noun was used to preface all sentences and actions undertaken by the board Each 'we' used in 2010 was followed by an action verb, for example: ***we 'reviewed', 'seek', 'increased', 'undertook', 'have' 'increased', 'concentrated', 'are', 'consider'*** In 2012 we have: ***'We operate' 'we debate' 'we implement' and 'we will continue'*** ***In 2014*** ***'We complied', 'we conduct', 'we continue', 'we strive', 'we are', 'we explain' 'we engage' 'we have'*** ***'We believe' ''we do' 'we believe' 'we do' 'we focus', 'we establish'***

FIGURE 2 PRONOUNS IN AC REPORTS

5.3.4 Audit Committee Reports - Word Count

We turn our attention to word count or pages devoted to audit committee in the period before and after SOA by examining the disclosures made in the financial statements before and after SOA. We begin by examining the number of words allocated to ACs in the pre and post SOA eras. The number of words or the number or percentages of pages have been used extensively in the corporate social disclosure research (Gray et al. 1995), whereas Hackston and Milne (1996) also suggest that sentence counts are also preferable because they convey a better meaning and may generate fewer errors (Milne and Adler 1999). Wildermuth and Zhang (2009) however opine that qualitative content analysis does not produce counts of statistical significance; instead, it helps to uncover patterns, themes, and categories important to a social reality (Wildermuth and Zhang 2009).

We find that before the passage of SOA, though each of the selected companies disclosed audit committee, very little was said about what work they did. The disclosures about audit committee were generic and like what every company was reporting. No company provided a comprehensive report of the activities of the AC in

the period. From the table below, we can see that across board, the word counts for AC related activities did not exceed the 1000's and in most cases less than 100 words.

However, when we examined the financial statements for Audit Committee disclosures after SOA, we find a remarkable similarity in all the companies. We find that the pages allocated to audit committees reporting keep increasing from 2005 to 2016as seen in the table below. From 2005, there has been massive increases in the space and words allocated to AC activities to 2016. Whereas in the pre-SOA era, audit reports were an average of 80 words in the financial reports, these had increased gradually among all companies to early 1000's and to over 10,000 words by 2016. If the space size allocated to each item in the financial report is a measure of its importance, then we can infer that after the SOA era, UK companies have begun to take AC activities more seriously than previously and hence the pattern in our table below (Table 11 UK SOA compliant Audit committee Report word count – Pre and Post SOA).

		AUDIT COMMITTEE DISCLOSURES - NUMBER OF WORDS			
	2000	2002	2005	2013	2016
Barclays	72	768	924	3000	10,334
Prudential	176	588	2160	3195	5597
BT Plc	89	297	1171	2000	3600
BP plc	32	141	946	4749	5732
Vodafone Plc	77	272	4188	2475	6065
BAE Systems	65	234	1001	2127	5280
National Grid	0	400	2354	5057	7628

TABLE 11 AUDIT COMMITTEE REPORT DISCLOSURE WORD COUNT

5.3.5 Audit Committee Meeting Times

Effective Audit Committees meet regularly to ensure that financial reporting process is functioning properly (McMullen and Rghunandan (1996). We turn our attention to the frequency of meeting times as an indicator of how serious member of the AC take their

responsibilities. A 1994 study of audit committees by Coopers & Lybrand, Audit Committee Guide, suggested that to be effective, audit committees should meet three or four times a year. Such frequent meetings enable the committee to stay on top of accounting and control-related matters and send a signal that the committee intends to remain informed and vigilant. The Financial Reporting Council (FRC 2012) document on Audit Committee states that there should be as many meetings as the audit committee's role and responsibilities require, but it recommends that there should be no fewer than three meetings during the year, held to coincide with key dates within the financial reporting and audit cycle. Our view is that board meetings are beneficial to shareholders. This is because Lipton and Lorsch (1992) suggest that the most widely shared problem facing directors is the lack of time to carry out their duties, a view which is also shared by Conger et al. (1998) who also suggest that board meeting time is an important resource in improving the effectiveness of the board. The number of times a committee meets becomes important factor in how serious they take their responsibilities.

We conducted a study to determine if there were differences in the frequency of meetings held by Audit Committees (AC) pre- and post-SOA, as reported in the financial reports. Based on the findings presented in Table 3, we observed that the number of AC meetings varied between the pre- and post-SOA periods. Specifically, following the passage of SOA which placed greater emphasis on the significance and autonomy of ACs, we noted an increase in the frequency of meetings held by each board during the post-SOA period. The study also found that all the UK companies in the sample began disclosing the number of times the Audit Committee met during the year in a clear and concise format in their financial reports, making it easier for shareholders to track and monitor the effectiveness of the board. This increase in

transparency is important, as the failure of effective monitoring by the Audit Committee was cited as one of the contributing factors to the Enron scandal. Therefore, the disclosure of meeting schedules by companies provides confidence to shareholders in terms of the effectiveness of corporate governance.

	2000	2001	2002	2004	2007	2010	2014	2016
Barclays	4.0	4.0	4.0	6.0	6.0	11.0	13.0	13.0
Prudential	6.0	6.0	6.0	9.0		25.0	11.0	11.0
BT Plc	4.0	4.0	4.0	4.0	4.0	4.0	8.0	9.0
BP plc	4.0	4.0	4.0	13.0	8.0	8.0	12.0	13.0
Vodafone Plc	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0
Average	**4.4**	**4.4**	**4.4**	**7.2**	**5.5**	**10.4**	**9.6**	**10.2**

TABLE 12 SOA COMPLIANT AUDIT COMMITTEE MEETING TIMES

5.3.6 Time Allocation to Specific Tasks in Percentage (100%)

After analysing the meeting times of the AC, we investigate how they allocated their time during the meetings in the pre and post-SOA periods. We discover that before SOA, the AC did not reveal the proportion of time spent on various areas of their duties during meetings. However, after the passage of SOA, all the ACs in our sample began to disclose the allocation of their meeting time to different tasks in order of priority. This is a clear indication of their increased responsibility and accountability after SOA.

This finding is suggestive of good corporate governance being displayed in the post-SOA period by management and their audit committee. This is a unique contribution as we have not identified any study which looked at this aspect of corporate governance. Displaying the amount to time devoted to respective areas of their work communicates trust. They wanted the shareholders to trust their work and to have confidence in the work they do, including how independent they have been. It is

evident that almost all the AC's in the post SOA period devoted a greater percentage of their time to financial reporting matters to highlight their enhanced monitoring role in financial reporting quality.

5.3.7 Disclosure of Financial Expert

Under Section 407 of the SOA, all compliant companies must disclose whether they have at least one financial expert on the committee, and if so that person must be named and to state whether he or she is independent of management. A financial expert is defined under the final rules as' a person who understands GAAP and financial reporting, can assess the handling of accounting estimates and reserves, has experience with financial reporting and internal controls, and understands audit committee functions. This new disclosure requirement has created a visible metric against which all public companies will be measured. It will influence corporate behaviour to ensure top-flight financial talent sits on the board and serves on the audit committee, possibly as the chair (Proviti 2020). Consistent with the requirement, we find that all companies in our sample had at least one member of the audit committee who has or is considered to have financial expertise.

5.4 Internal Control Disclosures

5.4.1 Introduction

Internal control over financial reporting (ICFR) is defined as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial

statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures.

In compliance with Section 404 of the SOA, management is required to provide detailed reports on the state of internal controls over financial reporting and any changes made during the period. This has led to a more comprehensive response from management regarding internal controls, as they are required to provide written certification and cannot overlook the importance of internal controls like they did in the past. Additionally, Section 404b requires external auditors to attest to the soundness of internal control systems as part of their audit work, which has made internal control reporting by auditors a key part of post-SOA financial reporting. For auditors to provide effective attestation report, they must perform detailed substantive testing of the control systems. Internal control has taken centre-stage in the post SOA reporting of financial information to shareholders.

Although internal control reporting is not mandatory under the UK corporate governance regime, auditors still provide some forensic details about the work they have undertaken in this area when reporting for the US market. However, in their reports to the UK market, auditors typically provide disclaimers stating that they have not assessed the effectiveness of internal controls.

5.4.2 Style of Presentation

We examine the Pre-SOA financial reports and find that find that the phrase ‘internal control’ appeared in low numbers in both sets of financial reports to 2004. However, when we replicated the same test for the post SOA reports, we find that the frequency of appearance of the phrase increases from 2005 through to 2016 for all companies. It can be inferred that prior to the enactment of SOA, directors were not obligated to

produce any reports on internal controls, and management did not see the need to disclose the status of the internal control system to shareholders or the market. Disclosures related to internal control during the pre-SOA period were only made by management in order to satisfy the agency cost model. We find that prior to the SOA, none of the sample provided a comprehensive internal control report. Each provided a just about a paragraph with standard wording, presented and presented year after year with little or no changes. Almost all the companies made references to UK Combined Code and the COSO report on internal controls. Directors acknowledged their responsibilities over internal controls, but very little extra information was provided in relation to whether anything changed during the years. The wording was the same for all years immediately before SOX.

5.4.3 Themes

Our analysis reveals that starting from 2006, there is a noticeable shift in management's focus towards risk management, which was not present in the pre-SOA era. Management now discusses internal controls with a greater emphasis on risk management, as evidenced by increased disclosures about internal controls. This represents a significant departure from the pre-SOA period, during which internal controls were only briefly mentioned in annual reports. This change in emphasis, combined with the increased volume of reporting on internal controls, suggests that there is now a renewed recognition of the vital role played by internal controls in the governance of UK companies.

Risk

We investigate the frequency of the word "risk" in the annual reports to determine how willing management was to inform shareholders about potential issues and their

management in UK companies. Our findings show that during the pre-SOA period, there were only a few references to "risk" in the annual reports of all UK companies.

However, from 2006 -2016, we that all UK companies in our sample were mentioning the word 'risks' in the annual reports and by 2016, there was a massive increase of in the word count by over 10 times from pre-SOA period. For example, whereas the annual report of Barclays bank reported risk 441 times in 2000, by 2005 this had jumped to 1044 times and at the end of 2016 to 2371 times. In BT plc 2000 annual report, the word 'risk' appeared only 37 times but by 2016, it was appearing 381 times.

5.5. External Auditors Report Disclosures

5.5.1 Introduction

One of the key objectives of SOA is disclosure- good quality information disclosure that will enable market participants to make economic decisions. Audit reporting quality came under the spotlight due to the collapse of Arthur Andersen, one of the then Big 5 Accountancy firms in the world.

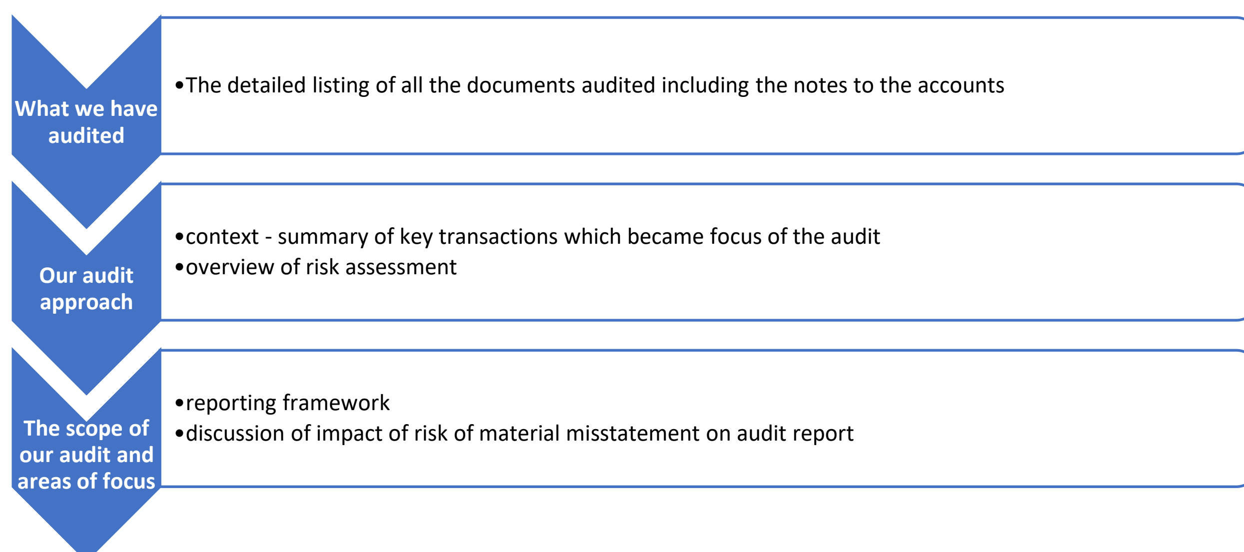
The aim of this section is to assess the changes in audit reporting quality after the passage of the SOA. We analyse the audit reports of selected companies before and after the SOA and find that there are significant differences between post-SOA and pre-SOA audit reports in many aspects.

5.5.2 Style of Presentation

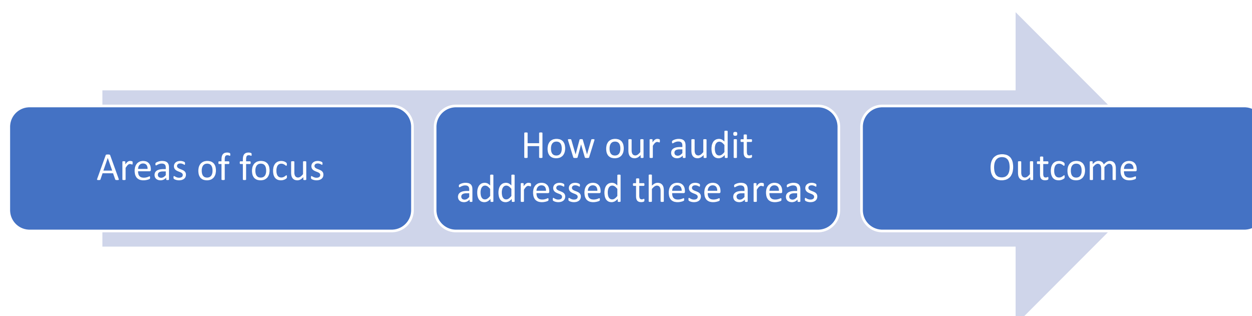
Our findings indicate that in the pre-SOA period up to 2002, all audit reports had a uniform format regardless of whether the company was listed in the US or only in the UK. The reports contained identical opening statements and wording. Specifically, the opening sentences did not list the audited statements but rather directed readers to

certain pages in the annual statements to locate them. Additionally, we observed that prior to the SOA, auditors of US listed companies did not provide a separate section for the US market. Only one audit report was issued. Shareholders were not alerted to the US listings and would be forgiven to think the companies are only UK listed. However, from the period 2002 up to 2006, all audit report reports of UK-US listed companies began to show a limited separate section of the audit report in addition to the main audit report. Then from 2007 -2016, we see a different audit reports for the same companies. The two separate report's structure is not only maintained, but these have been expanded in disclosures and structure. We find that auditors have started to address shareholders differently in the audit reports, by the way they disclose and describe their activities in the audit report. For example, we find the following model in audit reports of UK SOA compliant companies. This framework is used to capture the first part of the audit report, which is then followed by much more detailed account of the actual work done as shown in the figure below.

FIGURE 3 AUDIT PROCEDURES



The second part of the audit report is devoted to showing in much detail, the extent of audit work performed on key areas as well as the outcome of such procedures as seen in below.



The areas of focus section identify major material transactions which had significant bearings on the audit reports, and these are listed in sufficient detail and described. The extent of risk which these transactions posed to the audit report are also described. This is then followed by what procedures have been undertaken to address these risks, including questions that have been put to management to identify how they have dealt with these issues. Here the shareholder is given a glimpse of the workings of auditors as their agents.

This model clearly demonstrates a renewed focus on the importance of communication to shareholders. We interpret this as a conscious effort by auditors to ensure that shareholders and users of accounts will understand the length and breadth they have gone before the reports were produced.

5.5.3 Word Count

We analyse the length of audit reports by measuring the number of pages and words dedicated to them in both pre and post-SOA periods. Our findings reveal that in the pre-SOA era, audit reports were generally short, consisting of barely two pages with limited word count. These reports were standardised and contained boilerplate

language that was used year after year by all auditors, regardless of whether they were auditing US-listed or UK-only listed companies. The standard structure of these reports included an introduction, the scope of the audit, the respective responsibilities of auditors and management, the audit objective, disclaimer disclosures, areas not covered by the audit, and the opinion section. This practice created a predictable and familiar pattern in audit reports between audit firms, which is consistent with mimetic isomorphism. In contrast, we found that post-SOA audit reports were longer, sometimes exceeding ten pages, with a greater emphasis on disclosing information to shareholders.

However, when we examine the post SOA audit reports, we find that they are significantly different from the pre-SOA reports in many respects. Quality in this study is defined by their readability and the richness of the information to enhance shareholders understanding of the work done by auditors.

The subheadings include everything in the pre-SOA report plus several other paragraphs such as, internal controls, a section detailing the nature of the work done, incorporating the key risks identified, materiality, independence, and how they have dealt with each of these issues identified.

5.5.4 Themes Disclosed.

Audit procedures – Pre and Post SOA

An audit is an independent examination by an external auditor with the view to provide opinion on whether financial statements are true and fair. From the standpoint of an agency, this is an important function and therefore we expect the audit report to contain sufficient disclosures to give confidence to the user of financial statements. One

important segment of the audit report reports on what audit is about and we examine the respective contents of a sample of reports from both periods as above.

We find similarity in the structure of the report in that all reports contain this section. However, there are significant variation in terms of quality of presentation, explanation, the choice of words used and the detail and breadth of coverage. The section in the Pre-SOA era starts with what an audit includes.

> *An audit **includes examination**, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It **also** includes an assessment of the significant **estimates** and **judgements** made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.*

TABLE 13A AUDIT REPORT EXTRACT

The focus here is still on the financial statement including the accounting policies of management. There are no further details of what was done, how they did it, what steps they took and actions etc. was taken were not included in the section.

However, in the post SOA era audit report, the picture is quite different.

> *An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.*
>
> *This includes an assessment of:*
>
> *Whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;*
>
> *The reasonableness of significant accounting estimates made by the directors; and*
>
> *The overall presentation of the financial statements.*

TABLE 13B AUDIT REPORT EXTRACT

In the Post SOA era, the word 'involves' is used in place of 'includes' and it is immediately followed by the listing of the areas being assessed for the users to see

exactly what was done. This is a clear attempt to communicate with the user of accounts by inviting them to see what they meant by what audit work involved.

The verbs chosen and used reflect the level of attention and seriousness auditors attached to the audit report. For instance,

> *'We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.'*

TABLE 143C AUDIT REPORT EXTRACT

Use of other information

Though the phrase

"*We read the other information' is used in the pre-SOA audit report, the 'other information' is given as comprising only those sections set out in the table of contents including financial headlines, Chairman's message, Chief Executive's statement, Business and Financial reviews, Five-year financial summary, Report of the directors, corporate governance and Risk factors"*

Auditors might have or not used other external information in the audit process, but this is not made explicitly clear in the report. However, when contrasted with the same section in post- SOA period's audit report, we have a different picture, which is much richer and encompassing as in:

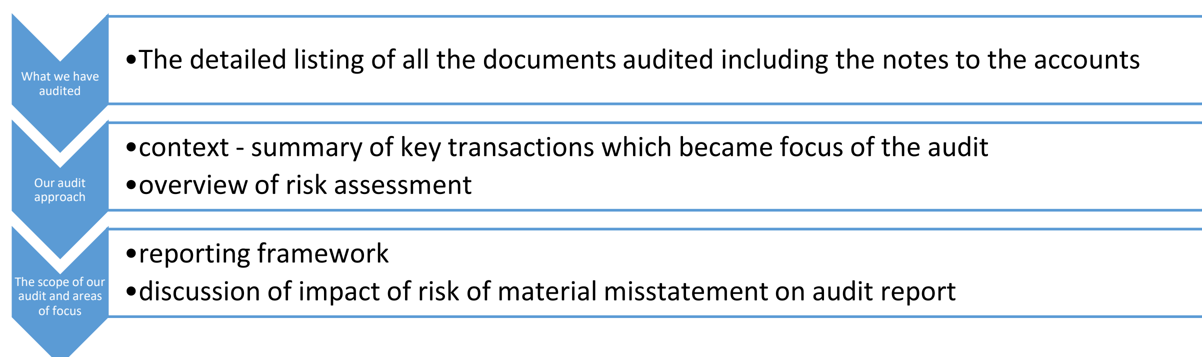
> *'We read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us while performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for*

our report. With respect to the Strategic Report and the Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

TABLE 153D AUDIT REPORT EXTRACT

By this approach, auditors are ensuring that their audit opinions have captured all relevant information concerning the company being audited as much as possible. Auditors are demonstrating that they are leaving no stone unturned in their reports of the financial statements. While it is management's responsibility to prepare accounts that reflect the company's status as a going concern, auditors are tasked with testing all material assumptions and bases for such assertions. This requires them to examine not just internal information, but also external information related to the audited entity.

5.5.5 Audit Procedures – Three - Prong Approach



Audit procedures are provided in sufficient detailed covering all areas identified, the risks presented, the audit work done to obtain assurances from management. There is much focus and discussion of substantive procedure as opposed to test of controls procedures in the pre-SOA era. There is a clear three-prong approach to the audit process: identifying areas of audit risk, describing the scope of audit work in response to the risk, and making key observations. These stages involve using higher-level

verbs in substantive procedures to detect material misstatements in account balances or classes of transactions. As a result, the auditors must conduct a thorough and detailed examination of the accounts before reaching an audit opinion. The aim is to gather sufficient appropriate evidence to support the opinion.

There is also a focus on auditors' responsibility over internal control. Internal controls take centre-stage in the audit reports as opposed to pre-SOA era. Audit firms in the UK have responded to the sections 302 and 404 and the SOA to provide a different audit report post SOA.

5.5.6 A New phrase in 2017 – 'a requirement to be independent'

In 2017, there is a new sentence or statement by auditors that they are required to be independent. The Section 404 (b), for the first time in corporate governance history, brings auditors into the equation of internal controls. As part of their report, auditors are required to attest to the existence and effectiveness of an entity's internal controls over financial reporting. This is based on the rationale that if auditors can verify the effectiveness of the internal control system, it indicates that the financial transactions have been carried out effectively, and therefore the financial numbers can be relied upon. Auditors acknowledged their responsibilities to attest to the effectiveness of the internal control over financial reporting.

5.5.7 Signature

We find that in the pre-SOA period, audit reports did not bear any name of the audit partners nor had any signatures. We find only the name of the accounting firm at the bottom of the audit report. However, when we examined these reports in the post SOA period, we find a different picture. We find that each of the reports now bear a name of the reporting partner of the accounting firm at the bottom of the audit report. This

demonstrates accountability and responsibility on the part of auditors in post Enron era and may contribute to increased confidence in financial reporting. Auditors are the gatekeepers in corporate governance working on behalf of the shareholders

5.5.8 Audit Fees as a predictor of Extensive audit procedures

The SOA brought a renewed focus on internal control over financial reporting under Section 404. Section 404 of the Sarbanes-Oxley Act (SOX 404) contains two provisions that apply to accelerated filers: (1) the management assessment (subsection 404(a)) and (2) the auditor attestation (subsection 404(b)). The Public Company Accounting Oversight Board (PCAOB) focus on internal controls over financial reporting has likely increased management and auditor scrutiny during their SOX 404 assessments. Our objective was to investigate whether the implementation of Section 404 has led to an increase in the scope of audit procedures in our sample companies. If this is the case, we anticipate that, all other factors being constant, the statutory audit fees charged during the post-SOA era would be higher than those charged before the period. Additionally, we sought to determine whether the implementation of SOA resulted in a decrease in non-audit fees for the sample population.

5.5.9 Audit Fees as a Percentage of Revenue

We find that that non-audit fees started to fall after the passage of the SOA taking cognisance of the restrictions of non-audit work by auditors by examine the percentage of audit and non-audit fees in relation to total revenue in Figures 17-21 below.

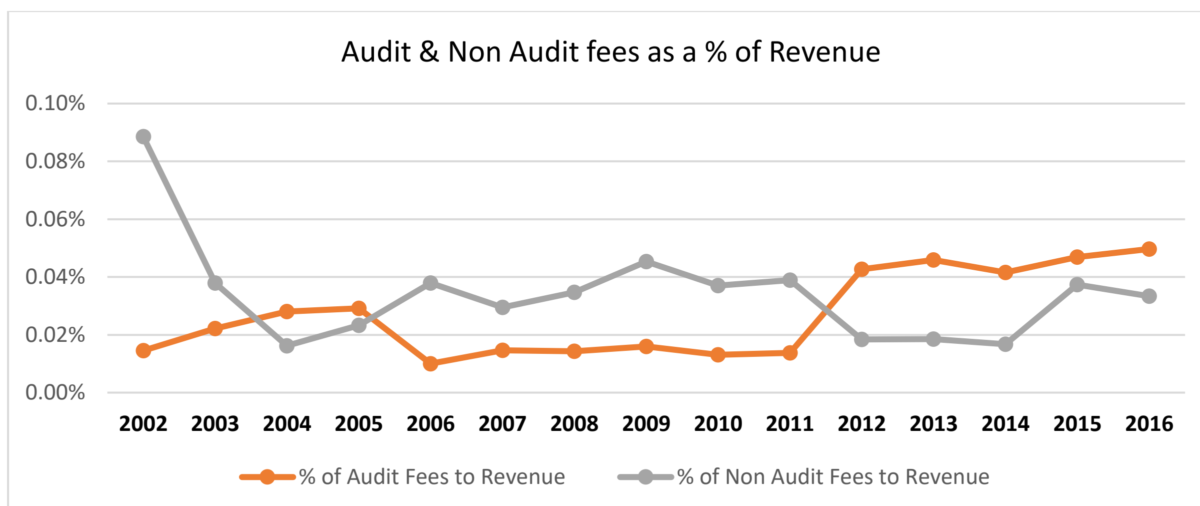


FIGURE 4 COMBINED EXTERNAL AUDITORS FEES AS A PERCENTAGE OF REVENUE

In the above figure we see that non-audit fee (NAF) as a percentage of total revenue was much higher (0.09%) in the pre-SOA period (2000-2003), whilst the audit fees were 0. 01% during the same period. However, we see for the first time that the AF rising above NAF from 2003-2005 before falling in 2006 where it stayed well below the NAF until 2011 when it rose and continued to rise above the NAF to 0.04% of total revenue, NAF stayed stable below 0.02% up until 2011, when it started to rise above the NAF to nearly 0.06% by 2016, whilst the NAF stayed well below it. The picture of AF and NAF in relation to Total revenue is not quite clear to explain. Whereas we can understand why there was a sharp fall in NAF from nearly 0.10% from 2002 to well below 0.02% in 2004 (due to SOA), what ensued between 2004 and 2012 necessitates further investigation. However, the overall picture is that in the post SOA, AF for once has risen above NAF to indicate to support the position of this thesis that auditors are spending more time on statutory audit work than NAF and therefore are getting more revenue for statutory audit related activities that non-audit related work.

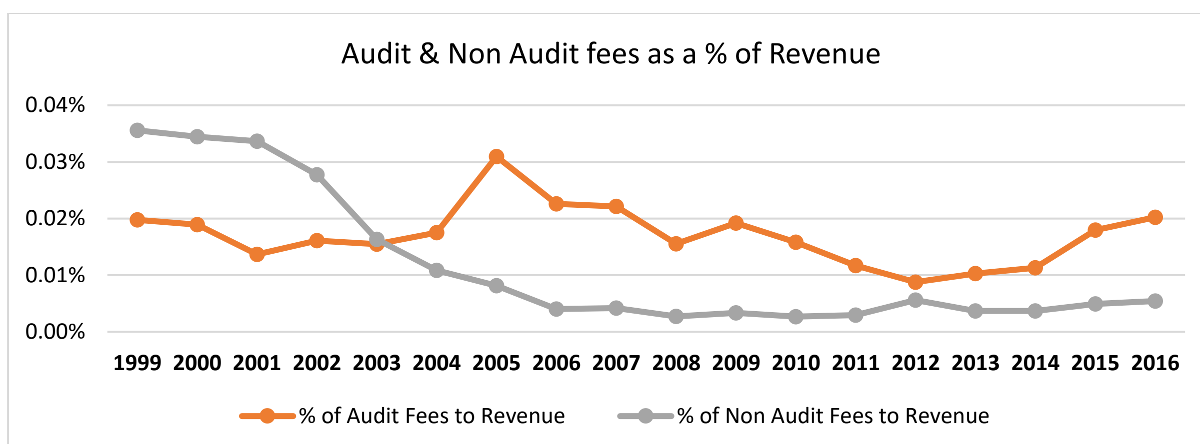


FIGURE 5 NON AUDIT FEES AS A PERCENTAGE OF REVENUE – BP

Similar pictured in seen in BP (figure) above, we can see that before SOA, NAF constituted over 0.035% of total revenue, and this continued until 2003. The SOA was passed in July 2002 and early adoption was encouraged, though this was not compulsory for UK companies until 2006. However, from 2004, we observe that AF exceeded NAF as a percentage of TR, and this trend persisted through 2016 and beyond. This trend supports our hypothesis that the increased focus on statutory audit matters was beneficial to shareholders, as auditors spent more time on these important matters. The increase in audit fees serves as evidence of the extent of work that auditors performed during this period.

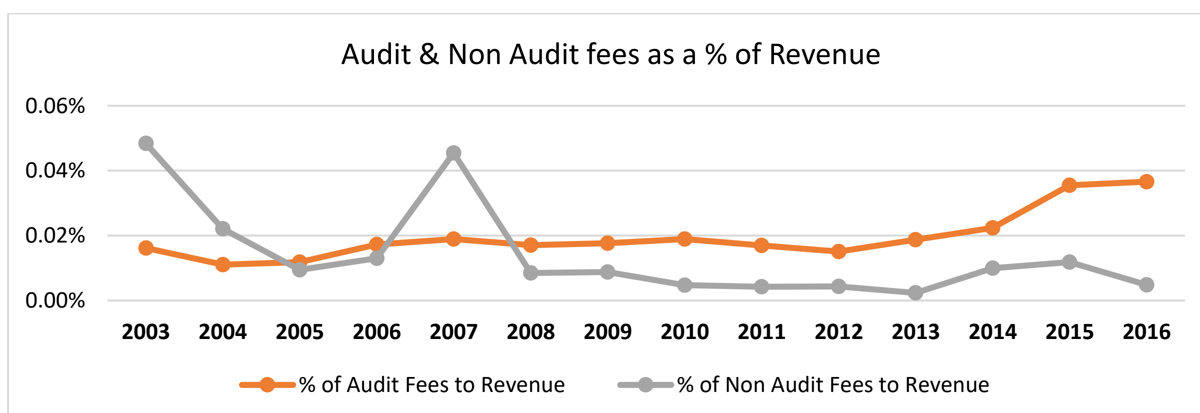


FIGURE 6 VODAFONE

In Vodafone, (fig 5) above, we can see that before SOA, in 2003, NAF constituted over

0.05% of total revenue, and dropped to 0.02% in 2004 before rising to around 0.05% in 2007 and falling sharply below 0.02% by 2008, from where it never recovered above 0.01% of TR until 2016. Meanwhile, since 2004 to 2016, AF has been rising steadily and from 2008, became higher as a percentage of TR than NAF until 2016. Again, this lends credence to our view that the new focus on the important work of auditors was yielding value for shareholders as auditors started spending more time on statutory audit matters than NA matters. The rise in fees is our evidence of the extent of work they did during the period.

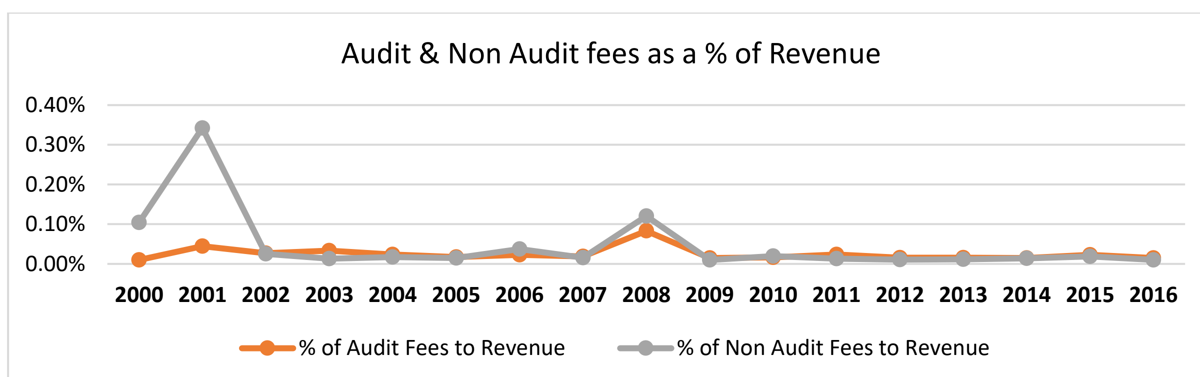


FIGURE 7 PRUDENTIAL AUDIT FEES

In Figure 7, the picture is not so clear cut. Much as NAF fell sharply in 2002, we find that thereafter, the AF and NAF stayed flat for this company in a manner that is very challenging to comprehend. However, what we can suggest is that since 2002 when the NAF fell from a lofty 0.035% of TR, it never rose again, thus suggesting that auditors have responded to the reduction in NA activities in direct response to the requirement of the SOA to that NAF increasing sharply in from 2000 to 2001 from and then fell.

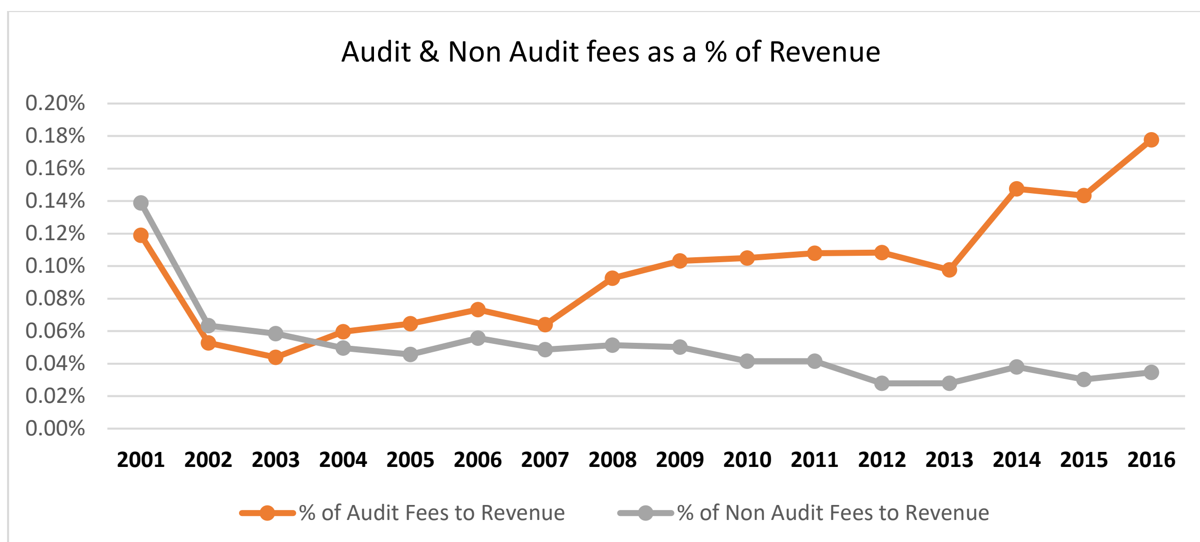


FIGURE 8 BARCLAYS AUDIT AND NON-AUDIT FEES

5.5.10 Post Sarbanes-Oxley Act Total AF and NAF as a percentage of Total Revenue

We examined to see the relative percentages of AF and NAF as a percentage of total revenue for our sample. From figures 17-22, we find that on average, NAF fees was higher than AF in terms of proportion of TR in the pre-SOA period, this trend changed and almost reversed in the post SOA period. We find that on average, the AF fees rose above the NAF in the post SOA period, and this was consistent among our sample. This support the view of this study that in the post SOA period, auditors are performing more enhanced role in corporate governance to make the necessary disclosure requirements under section 404 of the SOA.

Post Sarbanes-Oxley Act 2002 Total Audit fees in relation Total NAF

Based on our data, there is evidence to suggest that non-audit fees declined sharply and remained significantly lower than statutory audit fees. From 2004, statutory audit fees began to increase sharply and have continued to do so for all the companies in our sample. Figure 6 clearly illustrates that while non-audit fees are decreasing,

statutory audit fees are increasing. The important question is what factors are driving this trend. Starting from 2004, we observed a significant increase in statutory audit fees as a percentage of total audit fees and as a percentage e of total revenue. What was the reason for the increase in fees? Audit fees is based on number of hours required and the levels of seniority required for each assignment. The ICAEW's code of ethics states that a professional accountant in public practice must furnish, either fee account or subsequently to request, and without further charge, such details as are reasonable to enable a client to understand the basis on which the fee account has been prepared. So, the rise in SAF from 2004 can be explained as an increase in the volume of statutory audit related work. This volume of work can also be traced in part to the extent of work mandated under SOA. Under Section 404 (b), auditors are to attest to the effectiveness of an entity's internal control over financial reporting. The attestation requirement meant that auditors will now have to spend more time and hours in the audit of financial statements. Effective internal controls are key to the integrity of financial statements. The extra work being carried out appear to limit the level of NAS and hence a reduction in the NAS fees. From the figure 8, the combined audit fees for all the sample companies rose above the NAF from 2005-2016. Could SOA requirements under Section 404 be responsible for this trend? We can infer that, either it is the reason or part of the reasons. This conclusion also supports the findings that audit reporting quality has also become better under SOA than before it as explained below.

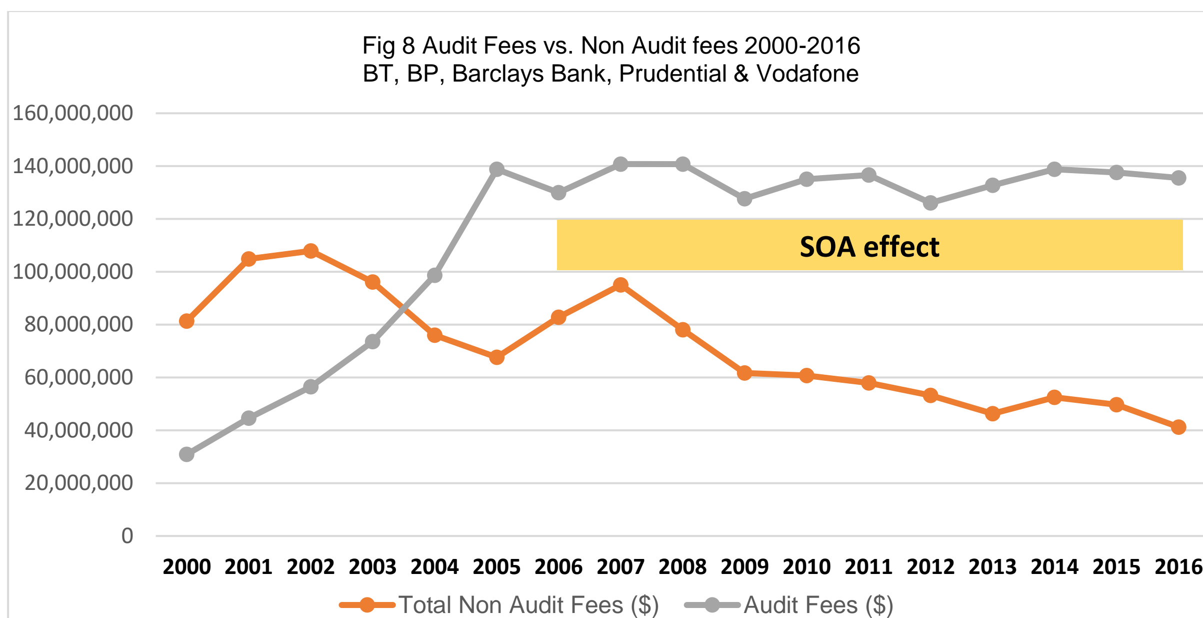


Figure 9 Combined SOA effect on non-Audit fees

The area marked SOA effect in Figure 9 can be termed as the SOA premium for shareholders. We see that as the statutory audit fees rise to denote an increase in the monitoring role of the auditors, we see while non-audit fees are also falling. SOA demands under section 404 is having positive effect on the quality of the audit, all things being equal. This is beneficial to shareholders and the market. This increase in volume of work is also consistent with the quality and quantity of auditor reports in the post SOA period. We can infer that those auditors are now focusing on statutory audit as their main source of revenue than non-audit service. Hence for the first time, we see statutory audit fees rise above NAF. The volume of work done is consistent with the fees increases. We can say that Sarbanes-Oxley undoubtedly had positive effect on UK corporate reporting.

5.6. Chapter Summary

This section discussed the extent to which SOA has influenced financial reporting and disclosures by examining and comparing pre and post reporting practices. We find

that in the post SOA period, based on the sections examined, it evident that financial reporting quality and practices have changed for the better in comparison with the pre-SOA period. Summary of the findings are as follows

Corporate Governance introduction sections

- More use of better forms of communication including more of us of pronouns and less passive sentences
- Management showed more politeness in the post SOA than in any time before that.
- Management made more direct references to shareholders in the post SOA period than pre-SOA period.
- Each year's introduction was different from the year before it

Audit Committee reporting and disclosures

- There are now separate AC reports in CG report in the post SOA period than before it.
- Audit report now contains more pronouns in the post SOA period contrasted with the pre-SOA period where there was no such use of pronouns.
- AR in the post SOA period contains clear evidence of work done, areas of concentration, and how much time was devoted to key areas of their responsibilities.
- There is evidence of AC's independence
- Each year's report is different from the year before reflecting on specific realities affecting the year of reporting as opposed to boiler plate repetition of prior year's template.

Internal control disclosures

- There is now a separate IC report in the post SOA whereas there was none in the pre-SOA period
- Post SOA IC highlight key risks facing each company and how these have been dealt with in the year. However, in the pre-SOA period, no such identification of risks was linked to the internal control.

External auditors' reports and disclosures

- External auditor reports have become more detailed and explicit in the post - SAO period that the period before it.
- Auditors now include details of how they have done their work to enable shareholders to gain better understanding of their work that the period before, which we believe will help reduce audit expectation gap
- We find that for the first-time statutory audit fees AF overtake NAF in the post SOA period which we suggest is as a direct response to the requirement of SOA.

Overall, evidence from our study suggests that corporate reporting by UK companies listed in the US have improved in the Post SOA period that the period before it. Significantly, we conclude that the combined effect is the end of boiler-plateism in corporate reporting.

CHAPTER SIX

Analysis of UK- only Listed Companies – Pre and Post SOA

6.1 Introduction

We turn our attention to UK-only listed companies who are not required to comply with the SOA to determine if there are any changes in their reporting practices in the period before and after the passage of the SOA. We randomly selected the years to enable us to capture the reporting practices prior to the passage of the SOA (2000-2002), during the passage and initial implementation (2002-2004) and 2004-2016). The coverage allows us to capture the 10th anniversary of the SOA since it was made compulsory for UK companies to comply.

The purpose of this section is to examine the reporting characteristics of UK-only listed companies and our focus of examination is the corporate governance section to determine if these companies reported differently from their SOX compliant counterparts using the pre and post SOA periods. From here, we selected the following areas: the corporate governance specific disclosures, Audit Committee disclosures, Internal control disclosures and audit quality, all in the pre and post comparisons.

The list of the selected UK-only listed companies is provided in table 14 below.

Sainsbury	Marks and Spencer	SSE	Admiral Group	Tesco

TABLE 16 UK-ONLY LISTED COMPANIES

6.2 Corporate Governance

SOA was passed to restore investor confidence in the market by helping to curb management excesses as occurred under Enron. Good corporate governance is at the heart of the SOA and therefore we decided to gauge that focus among others, by examining the frequency at which certain key phrase appeared in the whole of the annual reports in the pre and post SOA. We selected the following.

Corporate governance is concerned with the boards and key executives who control, manage, and operate the company and these executives are driven by corporate values, corporate ethics, norms and beliefs (Sheikh 2016). These executives are also responsible to the owners of equity- shareholders, and therefore use the financial reports to account for their stewardship to them. We shall examine the manner of communication, including choice of words or phrases used, the frequency of the phrase ‘corporate governance’ in the financial report, and the style of presentation of the section in the pre and post SOA to determine tone and focus on the subject in the overall context of financial report.

6.2.1 Frequency of Occurrence

In the period up to 2002 (pre-SOA), we find that companies in our sample barely mentioned the phrase corporate governance in the financial report. From the graph below, it becomes evident that the phrase appeared less than 20 times on average in all annual reports. However, we see a gradual rise in frequency of occurrence from 2004 through to 2008 (see Figure 9 below). The SOA was passed in 2002 but it only became compulsory in 2006 for UK affected companies to comply. From 2008 to 2016, we see a different picture. The frequency of occurrence of the phrase increased sharply to over 100 on average during the post SOA period by 2016. Clearly, there is

a sudden change in tone and focus of communication by the frequency of the phrase corporate governance. What is this sudden cultural shift attributed to? Is it a planned impression management, accidental occurrence or a natural flow of reporting, which now has its focus on shareholders, and which is making the narrative to capture such phrases? We rule out impression management because for whom and for what purpose will all these companies collectively be doing the same thing individually in an uncoordinated manner? Furthermore, why do these companies, which should be unaffected by the SOA suddenly change tact and put much focus on the phrase corporate governance in these reports? The manner in which all the companies in our sample are increasing the frequency of the phrase in the annual reports in an uncoordinated way suggests that there is an external influence, howbeit invisible, possibly the market expectation as a result of the fall-out of weak corporate governance practices at the collapsed Enron, had engaged the attention of management on corporate governance matters leading to a new focus or tone which then naturally allows the report to capture such a phrase. We examined to see if there has been a new UK requirement and found none. We turn our attention to the way the corporate governance sections are presented, specifically focusing on the introduction parts of the section.

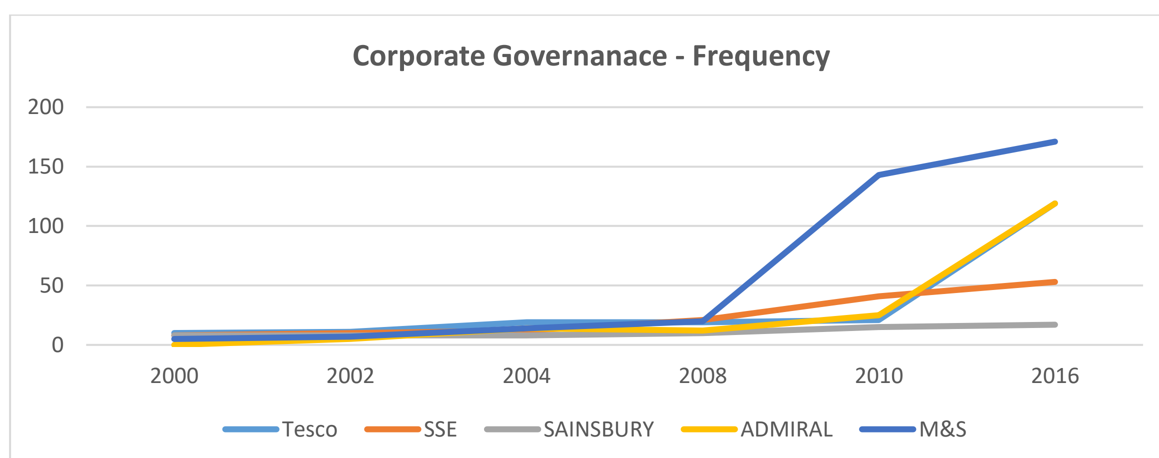


FIGURE 10 FREQUENCY OF OCCURRENCE

6.2.2. Style of Presentation

We find that the corporate governance introductory statements for all UK non-cross-listed companies looked similar in many ways. Then, we examine the way management addressed shareholders by specifically looking for words or phrases of politeness and well as the use of personal pronouns in the section. The annual report is a communication document above all else, whose aim is to help management communicate to shareholders, the owners of equity, how they have managed their resources over a given period. We find no use of personal pronouns apart from references to the 'company' or 'the group'. The various boards have not identified themselves in these sections, even though these sections are provided by the chairman of the Board. The section has been presented in an impersonal manner, boards in the UK did not see the need to address shareholders any better than what was prevailing. In addition, we find that each report had limited word count. This probably underscored the importance management attached to the corporate governance section during the period. More importantly, we can also infer that those shareholders and the markets probably did not express any need for such information and therefore, managements in all UK only listed companies did not see any need to disclose any more than they provided. That can explain why all the UK only listed companies had reported the section using identical format, wording and word counts. Furthermore, we find that in all these sections, there was no mention of or references to shareholders, as the main recipients of such reports. Given that these are corporate governance sections, a place where management communicates directly with shareholders, in their capacity as agents, one would have expected management to

be communicating directly to shareholders as they account of how they have governed the organisations over the years. The absence of shareholders denotes a disconnect between management and shareholders and this is inconsistent with one of the five pillars of UK corporate governance, namely, accountability. The management team acts as agents for shareholders and should communicate with them in a way that reflects this accountability. The study considers it unusual when the addressees of this communication are not directly mentioned, as this section of the annual report is typically where direct communication between management and shareholders occurs.

In contrast to the reporting practices in the pre-SOA period, we find increased use of personal and collective pronouns by management throughout the period from 2004-2016, we find a clear communication strategy whereby management made conscious efforts to present the section in a rather personal manner as persons charged with the responsibility of governance of these organisations. Almost all major statements began with 'we' as a collective noun, denoting that all members of the management board are speaking. This is meant to engender confidence in the recipients. Furthermore, these sentences are often followed by 'our' and whenever this was used, we see management identifying themselves with shareholders, as major stakeholders in the fortunes of these companies. It is interesting to find that in the pre-SOA period, no such collective nouns were used in the section as seen above. We find that management deployed the three pronouns in a very strategic manner. Each time they used the 'we', they followed that with an act of management responsibility – an action which is required of them to undertake as agents and making same known to shareholders. We also find that each time 'our' was used, it demonstrated a collective – management and shareholders as one unit. These were meant to communicate to shareholders that management's interest is aligned with theirs. They both have one

objective in mind - the success of these companies. Finally, we find that where the Chairman wanted to stress responsibility, the pronoun ‘I’ was used. This is a clear departure from reporting prior to the SOA, where only a few words were used and often were devoid of any personal pronouns. What can have accounted for such a sudden change in communication strategy of management of UK non-cross listed companies? What could have motivated or precipitated such a change in communication? We believe that the SOA influence on financial reporting in the UK was just beginning at the time with the manifestations of these subtle changes in the way management communicated to shareholders.

6.2.3 No Mention of Key Themes – Risk, Shareholder Value

We find that respective managements have not linked the section discussions with some important theme in the annual report. For example, we did not see any evidence that management used the sections to highlight matters of risks, strategy, and shareholders value, to list but a few. Since shareholders are likely to read the introductory section of the CG report, more than anything else, we expected management to use the section to underscore such important themes to highlight their commitment to transparency. We find the following:

6.2.4 Increased References and Politeness to shareholders

We find that after the SOA period, there was an increased recognition of shareholders in the corporate governance sections of annual reports. This was evident in the number of times management referred to shareholders as a group and the use of language that showed politeness and closeness to the recipients of the message. For example, the use of "dear shareholders" was not a regular phrase before the post-

SOA period. This change in communication suggests that management is making conscious efforts to engage shareholders in two-way communication. This is a positive development for corporate governance because communication is essential for conveying accountability to shareholders, who are the owners of capital. The study raises the question of why this change in communication strategies is happening. The researchers believe that the SOA is contributing to this phenomenon, as better communication with shareholders was observed in all the samples during the post-SOA period.

6.3 Audit Committee Disclosures pre- post SOA

We turn our attention to AC disclosures made in the post SOA period from 2004- 2016 using the same measure as above. It must be borne in mind that UK only listed companies are not required to comply with the SOA 2002 and therefore, we expect that, all things being equal, the AC disclosures should not be materially different in the SOA period than the period before it. Furthermore, compliance with the requirement of the SOA was not compulsory until July 2006 even for UK SOA compliant companies. The following are our findings.

6.3.1 Report Structure

With the introduction of the SOA, the importance of the Audit Committee in corporate governance was greatly emphasized. Our goal was to investigate whether this emphasis had influenced the narratives of UK-only listed companies. Since these companies are not obligated to comply with the SOA, we hypothesized that their reporting would remain unaffected by the increased focus on the Audit Committee. We start by checking for the frequency in occurrence of the phrase- ‘audit committee’. From the Figure 6C below, it can be seen that prior to the SOA, UK-only listed

companies barely mentioned the phrase ‘audit committee’ in the annual reports. Before 2004, all the companies were reported low counts of the phrase. However, we find that, immediately after 2004, the mentioning of the phrase begins to increase in all the financial reports and these increases kept on until 2016 (our cut-off period). We find that managements made several references to the audit committee in relation with internal control, risk and corporate governance. It also evident that some companies report more than others; however, the general trend suggests that all are doing almost the same thing- increasing the number of mentioning of the phrase in the annual reports. We also find that external auditors made several referral references to the audit committee including how they met with and reported to them. In this regard, we see a voluntary mimicking of the reporting practices of UK companies compliant with the SOA. We conclude that the increase in the frequency of appearance of the phrase AC demonstrates managements of UK-only listed companies’ acquiescence of the value of the new highlight on the committee and decided to offer enhance disclosures to their shareholders. The audit committee has become a major stakeholder within the governance architecture, away from being just a committee assisting management in managing the controls prior to the SOA period sitting within the nexus of management, external auditors and internal audit. The question we ask is that what is causing these changes in the two periods? Is it market-driven, UK regulatory changes or the impact of the SOA influencing this new focus on audit committees in the financial reports? We infer, in the absence of any other local regulatory pressures, that the SOA focus on AC’s might explain such a trend.

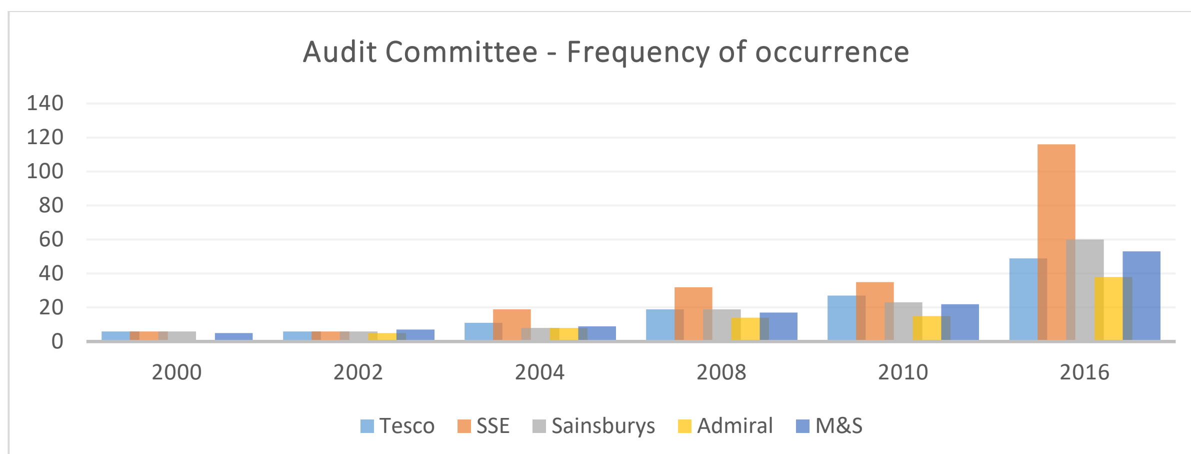


FIGURE 11 AUDIT COMMITTEE PHRASE- FREQUENCY OCCURRENCE

From Figure 11 above, which captures the occurrence of the phrase ‘audit committee’ in the annual reports of pre and post SOA. In the pre-SOA period, which is from 200 right to the beginning of 2004, we see that the phrase audit committee features very little in the whole of the selected annual report. However, after the publication of the SOA in 2002, which became mandatory for US companies in 2004 and 2006 for UK companies, we see that from that time onward, the phrase audit committee featured more in it. Given the importance of the committee to corporate governance, we can infer that the increase in their mentioning in the post SOA even among UK only listed companies, is an indication of the renewed focus on matters of CG.

6.3.2. Audit Committee Disclosures

To further determine whether the frequent occurring phrase of ‘audit committee’ was not just impression management, we turn our attention to the actual disclosures made by the AC in each annual report, beginning from the post – SOA period and compare it to the post SOA disclosures to see if there have been any material changes over the period.

During the pre-SOA period, our sample did not provide a distinct AC report. Instead, the disclosures made were typically general and merely outlined the committee's duties and to whom they reported. We discovered that during this period, the ACs were often described as "assisting management" in overseeing the controls within their organizations.

6.3.3 Word Count

The space allocated to an activity in the financial report is measure of its relative importance to shareholders. We find that in the Pre-SOA period, all the companies in our sample disclosed just few 100s of words in the annual reports. From Figure 11 below, we can see that from in the period leading to 2000 up to 2002, all our companies were making very little disclosures about AC and the very little that was made was also devoted to generic description of what the committee does. None of our companies made any disclosures about the actual work done by the committee and shareholders were left to figure it for themselves what the committee ever did.

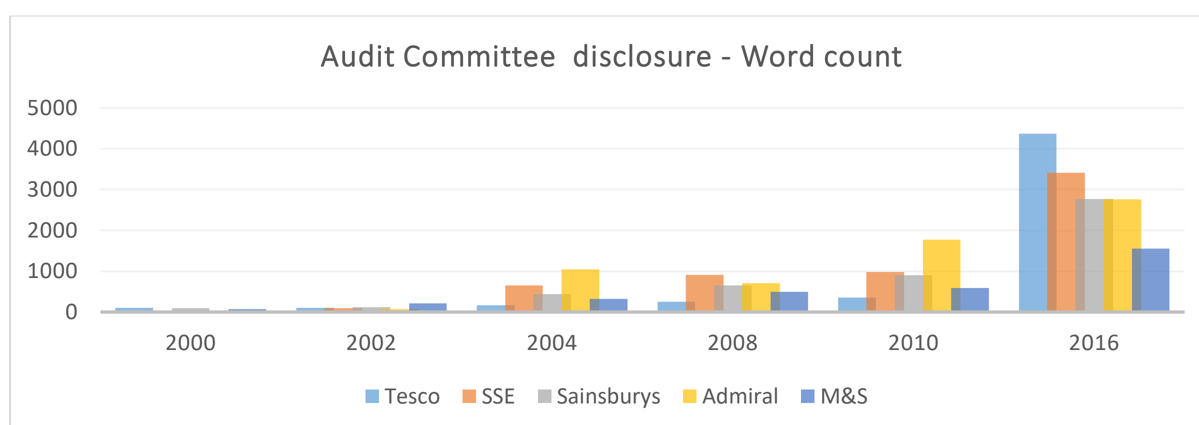


FIGURE 12 AUDIT COMMITTEE REPORT- WORD COUNT

We proceed to the post SOA period and expect the same or no changes given that these companies are not SOA compliant. However, upon examination, we find that

right from 2004, our sample companies began making a gradual increase in the word count of ACs report. From Figure 12 above, we can see that this trend carried on into the post SOA period and the word count kept increasing at an increasing rate until 2016, where companies were reporting in the excess of 3000s words. We check to find the justification for increases in word count and find that in most cases, companies are now reporting the activities of the ACs in the overall risk management of the entity's transactions. These reports are prepared not by management, but by the respective ACs and signed by the Chair of the committee. These reports contain detailed disclosures of what the committee did, why they did, how they did it, whom they consulted with and the outcome and presented these in a tabular format for ease of reading by users of accounts. The quality and quantity of information disclosed under audit committee has improved dramatically from what it used to be in the pre-SOA period. We examine the membership disclosures.

6.3.4 Membership and Independence

The AC in the period comprised non-executive directors, as required by the UK corporate governance code and this was the only visible demonstration of independence of the committee. However, from 2004, we see a different picture: each committee now comprised on independent non-executive directors (INED). This was a specific requirement of the SOA 2002. The expression of independence was meant to underscore the importance management attaches to the work of the committee. The committee in the post SOA period, now have the power to challenge management over matters which they deem fit as well as challenging the entities external auditors and internal auditors. We find a different form of AC in the post SOA than the one which existed under the pre-SOA period. Upon reading these reports, one would be forgiven to think that these companies are SOA compliant.

6.3.5 Meeting Times

The UK corporate governance guidance is that the committee should meet three times in a year. This was religiously adhered to by our sample in the pre-SOA period. And in all cases, we also find that the way these meeting times were disclosed in the report did not make it easier for the reader to find. The meeting times- that is the number of times the AC met during each year was hidden in the narrative, such that to the untrained eye, it is very difficult audit.

However, in the post-SOA, although our sample is not SOA compliant, we find that the number of audit committee meetings has increased to at least 4. In addition, this information has been presented in a table format for ease of understanding. This practice has become widespread and accepted as the norm in the post-SOA period. Our study emphasizes that financial reports serve as a means of communication primarily to shareholders and the broader market, enabling them to make informed economic decisions.

6.4 Internal Control

Internal controls help management ensure the integrity of financial transactions. Sections 302 and 404 of the SOA provides guidance to management and auditors in this regard. There are no such specific guidelines on internal control disclosures in the UK corporate governance. Consequently, when the SOA required management and their auditors to make written attestations and certification of the presence of strong internal controls, in the annual reports, this received immediate attention of the business community in the UK. To determine whether UK-only listed companies took any notice of the new requirement, we set out to count the number of times the phrase ‘internal control’ appeared in the annual reports before and after the SOA. We find that

prior to the SOA, the phrase internal control appeared less than 10 times on average in the financial reports of all our sample companies as seen in Figure 13 below. This trend continued up until 2004, from where we see evidence of more references to internal control in the financial reports. Though one company - M&S appeared to have made more mentioning than the others, the fact remains that in the post SOA period, financial reports are now making more references to internal control system than the period before it which can be seen a good thing by shareholders and the market. Management's focus on internal control systems in organisation can be taken to mean a communication of the integrity that belies the various numbers and transactions, which can be taken to mean a subtle drawing of shareholders' attention to the fact that.

However, granted that UK-only listed companies are not required to comply with the Sections 302 and 404 of the SOA, we find it rather curious why the sudden change in focus. In absence of the any related requirement from the UK, we believe, the market response to the SOA requirements played a part, if not the only reason, for such a change.

Audit committees in the UK corporate governance system predates the SOA 2002. However, given the extra emphasis provided by the SOA on the importance of Audit Committee, we set out to investigate the extent to which UK companies not listed in the US have been influenced – and to see whether the any such effects is nuanced or pronounced in the UK. We break our discussion into three different sections: pre - SOA, pre-compulsory period (2002-2006) and post compulsory period and find the following:

6.4.1 Limited mention in the financial reports in pre-SOA

The UK Corporate Governance code with its emphasis on ‘comply or explain, provides UK companies sufficient commercial freedom and flexibility to disclose information in the financial reports. We examine the disclosures of Audit Committees (AC) in the following way. We first search for the number of times the phrase AC was mentioned in the report. This, we find very important because it is an indication of tone and focus on the importance of the work of the committee in the overall context of the financial report within the corporate governance architecture. The frequency of occurrence of the phrase AC in the financial report can be a measure of how they are valued in the overall context of the final reporting as an important committee whose main function among others is to ensure the integrity of financial reporting in each organisation. From Figure13 below, we find that prior to the passage of SOA, for all our sample companies, AC received a very limited mentioning in the overall context of financial reporting. For all the selected companies, AC only got an average mentioning of 6 times to the year 2002 as seen below. We then move on to the nature of the disclosures

6.4.2 Boiler-plate disclosures

To support our view of the limited influence of ACs during the period, we find that each AC did not present any report but rather a generic narrative of what AC’s do is presented. In most cases, these disclosures are almost copy-pasted from one period to the other, demonstrating that AC’s work did not receive much attention and possibly not much influence and independence granted it and therefore management saw no need to devote valuable space in the financial reports. From Figure 13, we see that

the word count was much lower in the period up to 2002 than any period immediately after it. The disclosures do not make for interesting reading, especially they are repeated year on year, word for word with slight variations. These disclosures were not reports in the sense of report, which capture the true essence of what has been done. As a result, they did not highlight any themes relating to the financial reports.

6.4.3 Language Used

We also examined the language used to present the AC disclosures in the pre-SOA period and find that all the disclosures were made either in the present tense or in a passive voice. The financial report is a communication from management to shareholders and other users. Language used to convey the message is often ignored, but it is the position of this study that one must look at the way these reports are delivered in order to grasp the full picture what has been going on in the life a company over a given period. The significance of this approach is that it tells the reader what ought to have been done as opposed to what was done and the reader is left to discern or to assume that the AC performed their monitoring role as expected: how they did it and what was achieved is excluded from the disclosures in the pre-SOA period. Granted that the annual report is an accountability document, detailing how management has managed the resources of shareholders, the lack of such details from the AC's report can be taken to mean a lapse in communication by those charged with governance of these organisations.

6.4.4 Use of Personal Pronouns

We also find that there was little to no use of pronouns such as 'we' 'us' 'you' and 'I' in the AC disclosures during the pre-SOA period. Each company kept referring to 'the Audit Committee' and in a passive voice in a manner which is suggestive of how distant

management were from the AC disclosures, or how less important the committees were in the corporate governance system. The constant references to ‘the committee’ (audit committee) as if the committee has no members with responsibilities and chairmen for that matter, who took responsibility over the AC’s matters. The impression one gathers is that the AC disclosures were made by management instead of, and by the AC themselves to shareholders. The detachment of the members of the committee from the committee itself from the disclosures may imply how impersonal these committee were during the period, a factor which could be a function of their performance in corporate governance. To support our view of the relative importance of the committee at the time, we find that no company provided any report on the work of the AC during the period to enable the shareholders or the market to understand what these committee did during each year. The only narrative which appeared in the annual reports were their roles (what they were meant to have done as opposed to what they did.

6.5 Audit Committee Post SOA disclosures

6.5.1 Mentioning of AC in Annual Report

We start by examining whether there has been a change in focus and tone on AC in the financial reports by counting the number of times the phrase AC was mentioned. From Table 6a above, it is evident that immediately after 2004, we find a new focus on AC in all our samples’ financial reports. The number of mentioning of the phrase AC kept increasing from 2004 through to 2016 for all our sample. By the end of 2016, all the sample were mentioning AC more in various parts of the financial report. We posit that this change in focus has been as a result of the passage of the SOA. To ensure that these occurrences were not isolated cases, we set out to examine the

disclosures made. We note that from 2004 to 2016, there has been increases in the mentioning of AC in the financial reporting. From Figure 12 below, we can see that the word count for AC disclosures increases at an increasing rate from 2004 through to 2016 thus ending the 'boiler-plateism' which used to characterise the prior disclosures. What is causing these companies who are not supposed to comply with the SOA all sudden put the spotlight on ACs? The word count of the reports keeps increasing from 2004 through to 2016 for all our selected companies. Something must be causing this sudden change and we believe; it is the SOA's focus on AC that has contributed to this new development.

6.5.2 Audit Committee Composition

It is crucially important that the AC (Audit Committee) is both independent and perceived as independent due to its crucial role in financial reporting integrity. One method of determining independence is to analyse the committee's composition. Our study of a sample group found that all ACs were comprised of Non-Executive Directors during the pre-SOA period, in accordance with UK Corporate Governance requirements and listing rules. None of the companies in our sample indicated the inclusion of "independent" NEDs in the AC composition.

Membership of the AC is important when one is examining how independent they can be in performing their responsibilities. We examine the membership and find that from 2004 -2016, the corporate governance section includes a disclosure of an independent NED. This was not the case in the period immediately before it and we ask what is causing this sudden change in the composition of AC's? The introduction of the word 'independent' clearly underscores the new focus and a clear change in tone in the way the new AC is viewed within the corporate governance architecture of each company

within our sample. We find that Ac committee had a new sense of independence to carry out their function in the corporate governance of these companies. For example, we find that the AC's had power to review and challenge management actions, assumptions made in relation to the financial statements as seen below.

> *'Review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board'.*

This ability of AC to challenge management is a suggestive of change in tone and emphasis in a manner which was non-existent or at least never disclosed nor manifested in the financial reports prior to the passing of the SOA. This theme also continued over the power they exercised on the external auditors' activities. During the period we analysed, the AC held the authority to authorize all non-audit fees, particularly when performed by the current external auditors and if the fees were expected to surpass the statutory fees. The purpose was to safeguard the credibility of audit opinions by preventing non-audit work performed by the external auditor from exceeding the statutory fees.

6.5.3 Meeting Times

The number of times the AC meet has been linked to effectiveness of the board. We go further to add that the way this meeting time is disclosed is also very important. We find that for our sample UK only listed companies, the disclosure of meeting times is buried in the general narrative, something, we believe can evade the eyes of an average shareholder. All companies reported a meeting time of three during each year as a minimum requirement of the UK corporate Governance code.

6.5.4 Key Themes in Disclosures

The remit of AC committee includes internal control, risk, financial reporting, whistleblowing, external audit- appointment and reporting. We find that in the pre-SOA period the sample financial reports did not include any such themes in the disclosures. The UK corporate Governance code did not require such reports to me made by ACs. The boiler-plate style of the narrative disclosures of AC made did not lend itself to the inclusion of any themes on which the AC had worked on during the period.

6.5.5 Word Count of Reports

We examine AC disclosures in the annual reports in the period between 2006 and 2016 and find that in our selected companies, the space allocated to AC disclosures continued from where it left off in the pre-SOA period. We find that the space allocation got bigger and better year on year from the 2004 to 2016. These reports were different from each other from one year to another and from company to company. We also find that by 2010, financial reports included full and comprehensive reports of AC committee's work and findings. These reports, far from being generic, have also been signed by the Chairman of the AC, to signify proprietorship, responsibility and accountability. These practices are a radical departure from what pertained in the pre-SOA period up to 2002 where only a generic description of the work of the committee were disclosed to shareholders.

Without any exception, there was substantial increases from 2004 to 2016 (as in the Figure 12 below. These increases in word count averaged almost a tenth fold on the 2006 words by 2016. The AC is now given prominence in the corporate governance of UK companies, and this is evidence by the space being allocated to them during the period. Continuing the theme of importance, we find that by the close of 2016, the AC in respective companies were now providing separate reports to disclose the work

done, the methodology used by the committee, the findings and eventually the actions taken were all disclosed in the respective reports and subsequently signed by the chairmen of the Committees. This is significant given that in the period immediately before this (2000-2005) no company made no such disclosures.

Furthermore, we find that within these reports, the AC committee role had changed or at least was changing from being ‘assisting management’ to performing and taking responsibility for the work they have done within the corporate governance framework and reporting almost directly as if to shareholders as in an extract below in figure 12.

This pattern is consistent with UK SOA compliant companies during the same period. We now turn our attention to the language used.

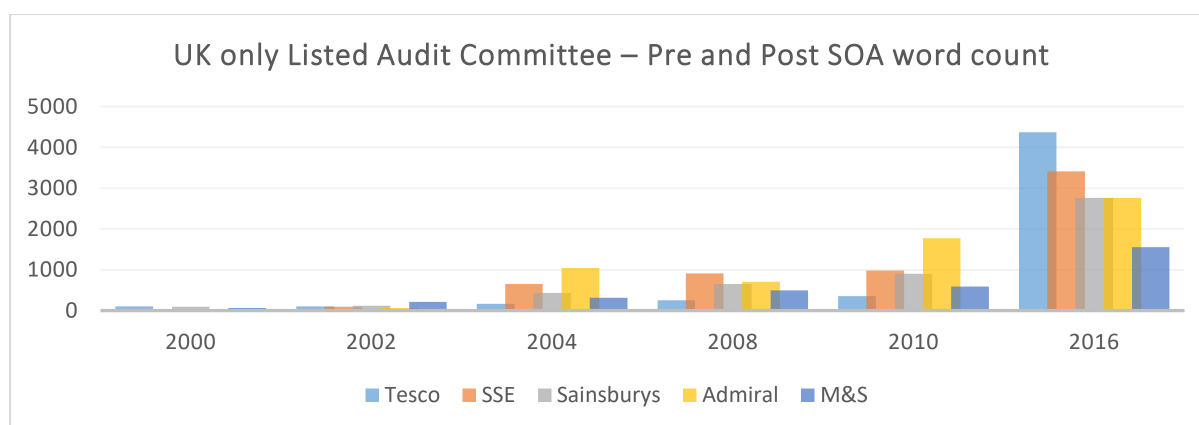


FIGURE 13 UK ONLY LISTED AUDIT COMMITTEE – PRE AND POST SOA WORD COUNT

We start by examining AC disclosures prior to the SOA for UK listed only companies as in Figure 13 above. From the corporate governance section, we find a common pattern among the selected companies in a way they disclose matters on AC. We find that the space allocated to the AC disclosures is very small for all our sample. This is evidenced by the word count of the AC disclosures. We can see that from 2002 to 2004, very limited space was allocated to audit committee disclosures. This may

suggest that though AC was part of the governance architecture, they were not highly regarded in a manner to command much space in the annual report, which is a communication instrument for management to get their messages across to the shareholders and the market. From our data, we find that across our sample companies, respective managements viewed AC as a committee whose role was to 'assist' them to carry out certain functions, in a manner which they would not say about Remuneration committee for example, at the time. Their roles were perceived by management to be very limited to the monitoring of accounting and internal control system and approving policies as well as reviewing annual financial statements. Due to this limited role, we find that each of the AC committee did not present any specific report disclosing the work done during the selected period. Shareholders were not told about how AC committee did their work, what specific areas they covered, what was found, and the actions initiated to address those findings. Given these circumstances, we may infer that AC were not as independent as they ought to have been on paper.

6.5.6 Financial Expertise

In addition, there was a sudden disclosure of a member of the AC with a financial expertise immediately after 2004. Whereas the SOA had mandated for such disclosure for only SOA complaint companies, we find it interesting to see how UK companies, not listed in the US were making such disclosures voluntarily.

6.5.7 Key Theme – Risk

Whereas we did not find any major theme being disclosed in the AC disclosures prior to the SOA, we examine to see if the situation has changed in the post SOA period. We find that for all our sample, by 2010, all the AC reports disclosed major themes such as risks and whistle blowing procedures.

Risk management is at the heart of the work of AC. They help management to manage risks through control monitoring. The AC reports in the post SOA highlighted in many respects their role in risk management of these organisations and clearly highlighted the types of risks they identified and how these were dealt with, detailing any communications with management in that regard. In these connections, we find that recorded instances where they had to challenge management in their capacity of AC. This, to us is evidence of the new measure of independence that has been afforded to the Committee in the post SOA period. The power to challenge management was not present in the pre-SOA period and given that the UK only listed are not obliged to comply with the SOA, we find this development very interesting.

The opening statement taken from Tesco's 2015 AC report for example, demonstrates the renewed independence and confidence in the AC in the UK. It shows a direct communication to shareholders about what they focused on as a committee within the year and how important that was. They are telling shareholders and the market how their time as AC was spent within the year. This is different from the way they communicated in the pre-SOA period. Much of these works done have also been received very well and acknowledged by management during the period as seen in an extract from Marks and Spencer 2014 in the figure below.

FIGURE 14 POST-SOA AUDIT COMMITTEE DEFINED ROLES

''In view of our longer-term ambitions, the significant investments that have been made across the business and increasing complexity as we grow, the Audit Committee has played a substantial role in ensuring appropriate governance and challenge around our risk and assurance processes'' (M&S 2014)

We also find a new focus on independence non-executive directors and a stress on the presence of someone with financial expertise on the AC as a direct response to

SOA requirement to have such an expert on the committee. Whilst all these are taking place, one would be forgiven these companies are SOA compliant

Audit Committee’s role in the corporate governance in the UK have been enhanced in the post SOA era than in the period before it. This is evidenced by the numerous disclosure changes in the annual reports of UK companies not listed in the US and therefore not compliant with it. Evidence from the gathered from the annual reports attest to the fact that AC disclosures of UK-only listed companies have been improving gradually from almost no disclosures to full-blown reports with details of work performed during the SOA period. Audit Committees have gained much prominence in the post SOA period than in the per-SOA period. The evidence also proves that UK only listed companies have been influenced by the SOA provisions on Audit Committee and given they started to make disclosures consistent with SOA compliant companies almost within the same time when these companies started to make changes due to the requirement of the SOA. Good reporting practices have been from the UK cross-listed companies. This demonstrate that companies can mimic each other if the actions are viewed positively by the market, even without any regulatory requirement. Disclosure of Financial Expert

There was no formal requirement in the UK for UK only listed companies to disclose that at least one member of the Audit committee possess financial expertise until 2016. However, the SOA rule required that at least one member of the AC must have financial expertise and must be named Company Audit Committee members.

6.6 Internal Control

6.6.1 Introduction

We examine internal control disclosures in the pre-SOA period for UK only listed companies. Consistent with the UK Corporate Governance code at the time (the Combined Code), which did not require management to provide separate disclosures on internal controls, all the selected companies provided similar disclosures from 2000-2004.

We started by analysing how frequently the term "internal control" was used in the financial reports of our sample companies. We discovered that prior to the SOA and up to 2004, there were very few references to "internal control" in these reports. This suggests that management did not place much emphasis on disclosing information about internal controls during this time period. Additionally, we observed that the companies included repetitive and standardized disclosures about internal controls year after year. Figure 13 illustrates that all companies in our sample mentioned "internal control" less than 20 times before 2004. However, we can see that from 2004, when SOA compliant companies were beginning to prepare to comply with the Act, we see a raised activity in the financial reports of our sample companies. In 2004 we see a beginning of a gradual increase in the mentioning of the phrase internal control in the reports. This continues to 2008 through to 2016.

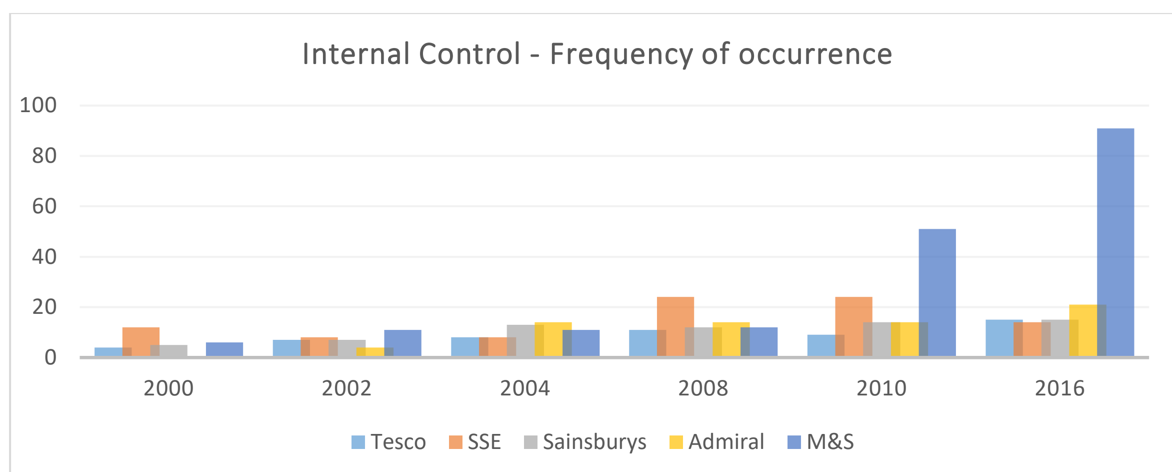


FIGURE 15 INTERNAL CONTROL - FREQUENCY OF OCCURRENCE

6.6.2 Frequency of Occurrence

We then examine the corresponding disclosures on internal control in the period before the SOA. We find that companies in our sample did not disclose separate reports on internal controls, consistent with the UK corporate governance practices during the period, where such requirements were in place. The financial reports of the companies in our sample contained only brief, descriptive explanations of internal controls and their intended purpose. None of the companies voluntarily produced a report. The disclosures made were of limited word count in the range of 100's. However, we find that immediately after 2004, we find a change in the word count climbing into the 1000's on average. This pattern continued through to 2016, by which time each of the sample companies was presenting internal control as a complete report, incorporating all the material activities which have been done within the framework on controls to enable shareholders and users of accounts appreciate how effective the internal controls were. From Figure 13, we can see that by 2016, some companies were disclosing over 3000 words on internal control, and these were not mere impression management exercise, we these reports very rich in content and

context. Something that would give the user of accounts some assurance of confidence that indeed some measures of good work have been done by management. Although, no internal controls have their own inherent weaknesses and the fact no number of controls can guarantee zero - risk transactions, the presence of strong and effective internal controls activities can reduce risk a minimum level. Hence the articulation of management of these controls in the financial report is a way of management telling shareholders ‘Trust us we have done a good job’ Significantly, we find that in the post-SOA period, the internal control reports included major themes such as the risks facing the organisations and the major role the audit committees and internal audit departments have played in the management of internal controls to identify and mitigate these risks. Given that the UK companies are not required to make such internal control disclosures, we ask what has been driving this change in management behaviour - what is driving the shift from the pre-SOA practices to the post -SOA practices? We believe that these change in practices have been influenced by the sections 302 and 404 focus on internal controls. It is evident that this new disclosure practice appears to have crystalized with all companies now maintaining the status quo with no return to the pre-SOA practices of disclosures.

6.6.3 Word Count

We find that between 2000 and 2002, very low levels of word count was produced all the companies in our sample. We find evidence of boilerplate, repetitive style of disclosures year on year up to 2002. However, from 2004, we find the word count increasing for all for all companies. The low word count is consistent with the relative importance attached to IC during the period.

Evidence from the nature, quality and extent of IC disclosures in the post SOA period suggest that SOA has influenced the way UK companies has been disclosing IC since the passage of the SOA. There has been a significant improvement in the quality of contents provided by UK only listed companies over the period compared with the pre-SOA period. Our findings indicate that when the UK companies subject to the SOA began to modify their reporting practices to comply with SOA s404 and 302, the UK-listed companies also began to make comparable changes to their internal control (IC) disclosures. It is worth noting that the UK corporate governance code did not mandate these changes. This observation implies that the SOA had a constructive impact on UK corporate reporting.

We observe that the sample companies share commonalities in their disclosures, which primarily emphasize the significance of internal controls in financial reporting. However, while management acknowledged their responsibility for IC, they provided limited details on the specific activities they undertook to address them. One commonality among the companies in the sample is that the boards acknowledged their responsibility for IC's within their respective organizations:

> *The Board has overall responsibility for internal control, including the system of risk management, and sets appropriate policies having regard to the objectives of the Group. Executive management has the responsibility for the identification, evaluation and management of risks and for the implementation and maintenance of control systems in accordance with the Board's policies.*

The functions of IC were listed, often in bulletised form for easy identification, but the substance of what was done in each of the key purposes were absent in all these reports.

6.6.4 Language Used

Consequently, we find that these disclosures were made in either passive voice or in the present tense, suggestive of a pattern of reporting to shareholders what was ought to have been done as opposed to what was done. This gap is important because it leaves the shareholder to imagine how these controls operated and to assume that management with all the good intentions might have operated the IC as expected. We find no use of what we describe as ‘active’ pronouns ‘we’, ‘you’ ‘I’ in these disclosures to indicate personal responsibility over these disclosures. The prevalence of passive voice and lack of active pronouns in the IC disclosures during 2000 to 2003 indicates the low priority given by management to these disclosures for the benefit of shareholders. This trend was observed in all UK listed companies, regardless of their cross-listing status in the US or elsewhere, implying that this was the standard practice during that period.

We find that each company reported the use of AC to review the IC on behalf of management, but details of what and how this work was carried out were absent in all the financial reports.

Towards the end of 2004, there was a noticeable rise in the word count of all companies (as shown in Figure 12), which coincided with UK SOA compliant companies preparing for mandatory compliance in 2006. Interestingly, during this period from 2004 to 2006, UK-only listed companies began to provide more detailed information on internal controls, including areas that were not required by the UK code of corporate governance. The word count increased significantly, with some companies almost doubling their disclosures, and including detailed descriptions of the internal control activities carried out during the period. Furthermore, management

began to establish a connection between internal control and risk management from 2004.

> *The Board has overall responsibility for internal control, including* ***risk managemen****t, and sets appropriate policies having regard to the objectives of the Group. Executive management has the responsibility for the identification, evaluation and management of* ***financial and non-financial risks*** *and for the implementation and maintenance of control systems across the Group in accordance with the Board's policies and in line with best practice identified in the Turnbull Report*. (2004)

The disclosure of the linking of IC with risk management is important because it marked the commencement of the recognition that shareholders ought to be informed of the function IC and how these are deployed to help business decision-making.

6.6.5 Key Themes Disclosures

Prior to the SOA, our sample companies made limited disclosures about internal controls (IC). However, in 2004, we noticed a significant change in reporting where companies started referencing key themes related to IC. These themes included the risk register and whistle-blowing. Additionally, we observed the phrase "risk register" appearing in one of the companies for the first time.

> *The Board maintains the Key Risk Register and considers during formal risk assessments whether the actions being taken in mitigation are sufficient*

This register enables management to capture all aspects and areas which pose significant risk to the business – financial and no-financial and where this existed, we find the mention of Internal Audit function being used to carry out such tasks. The absence of such register or at least the failure of management to mention the use of such register support the view of this study that IC controls reporting in the UK prior to

the SOA was less than optimal at least until the SOA was passed. Its presence supports the view that after the passing of the SOA, even companies that were not listed in the UK were beginning to wake up to the good corporate governance and the importance of effective communication with shareholders. We now turn our attention to the post SOA period to examine how UK only listed companies reported on IC during the period.

6.7. Post SOA Internal Control Disclosures

We turn our attention to the post SOA period and find the following.

6.7.1 Word Count

Our primary focus was to see whether the word count of internal control disclosures have been any different from those of the pre-SOA period for UK only listed companies. Based on the figure below, we record significant increases in the word count year on year apart from one company where we find some inconsistencies over the period. More disclosures are being made about IC in the post SOA period than before it and the question we ask is why is this the case? Given that UK combined code did not have any such requirement for management to make such disclosures about IC, what could have accounted for this change in management behaviour? At the time, there hadn't been any new EU regulation mandating European companies to make such disclosures. The SOA brought internal controls into the spotlight, leading to increased attention from the mid-market, shareholders, and all management, regardless of whether companies were listed in the US or not. As a result, it is not unexpected that UK-only listed companies began to increase their disclosures on

internal controls in a manner consistent with mimetic isomorphism, similar to how UK SOA-compliant companies were responding to the SOA.

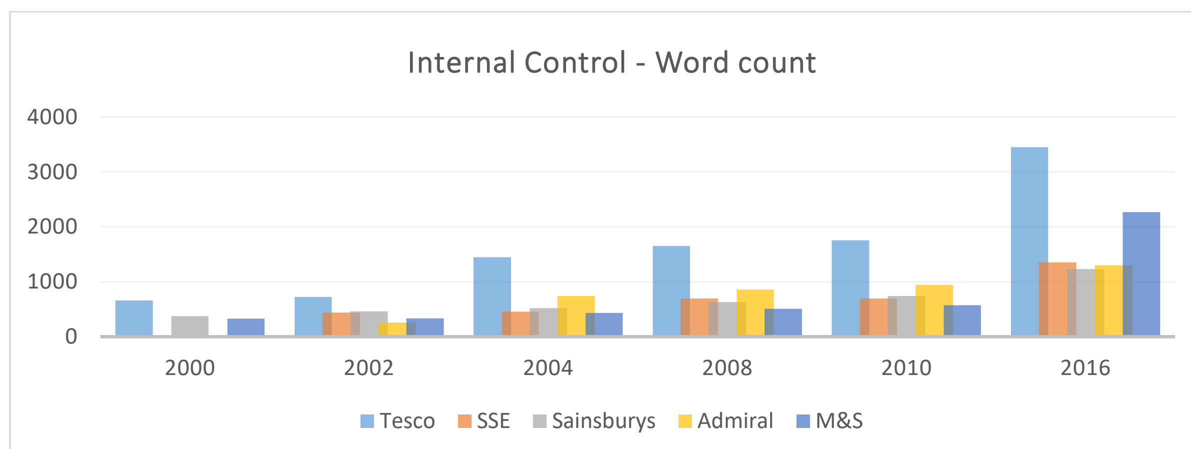


FIGURE 16 SUMMARY OF I/C WORD COUNT – PRE AND POST FOR UK ONLY LISTED COMPANIES

Evidence from the nature, quality and extent of IC disclosures in the post SOA period suggest that SOA has influenced the way UK companies has been disclosing IC since the passage of the SOA. There has been a significant improvement in the quality of contents provided by UK only listed companies over the period compared with the pre-SOA period. We find that just as the UK SOA complaint companies were beginning to make changes in their reporting in response to SOA s404 and 302, UK only listed also began to make similar changes to their IC disclosures even though this was not required by the UK corporate governance code. This leads us to infer that the SOA has positively influenced UK corporate reporting.

6.7.2 Language Used

We find that the disclosures were all made in the active voice and written in past tense of the verbs used. Words do matter because we see that in the pre-SAO period, IC disclosures were made in bland passive voice and almost in a descriptive language

narrating the use of the accounts what these IC's there were to achieve. However, in the post SOA period, we find that all companies have gone the extra mile of detailing what these controls were, how they have been used and by whom, and the outcomes achieved. There is a change in management behaviour in this period than any other period prior to the passage of the SOA. These behaviours, we believe were driven by the SOA focus on IC.

6.7.3 Key Themes

We analyse the themes that were addressed in the IC disclosures and observe that UK-only listed companies started discussing crucial topics related to IC that were not previously emphasized during the pre-SOA period. These themes include risk management, risk registers, internal audit, audit committee, and whistle-blowing. Each company disclosed over the period, the possible areas of material risks in these organisations for the first time to enable shareholders to understand what is going on during the period. In a way it was a communication aimed at bringing the readers on board the governance process, demonstrating openness and accountability. Each company in our study provided detailed IC disclosures beyond just reporting their existence. They went into greater detail by explaining which controls were in place, who was responsible for each stage of the process, how the controls were operated, key risks identified and how they were dealt with, and the outcomes of such actions. While all companies reported that the Boards were responsible for IC, we observed an enhanced role of Audit Committees and Internal Audit in the operation of IC during this period. Internal Audit function worked with the Audit Committee to ensure that controls in these organisations operated as expected. SOA brought to the fore the importance of whistle-blower protection post Enron. For companies not listed in the US, it was an interesting to find that these changes were being implemented voluntarily

in the UK. We find that post SOA, whistle blowing began to feature in the corporate governance section of the annual reports and this was specifically discussed under internal control, where the procedures and policies in place were disclosed for shareholders to demonstrate management's commitment of openness, transparency and accountability in the governance of these organisations.

Using Lancsbox software, we run the audit committee reports of all the UK only listed companies from the pre and post SOA period (selected periods) and identified the following words- 'risk' and 'review', as an example. Audit committees have a key role to play in risk and compliance management, and their work entail lots of reviewing of the work and transactions as well as internal controls over financial reporting to ensure integrity of financial reporting. The committee's primary purpose is to provide oversight of the financial reporting process, the audit process, the company's internal control system and compliance with laws and regulations. These functions means that the committee can be expected to review important accounting and reporting issues as well as understanding the importance of risk in the light regulations and laws on financial reporting. The committee also has responsibility to review the results of an audit with management as well as reviewing the appointment and remuneration of external auditors. From the ongoing, we can see that the main work the audit committee does centres around 'review. Hence, we select these two words 'Review' and 'Risk' to see how many times these words appeared in the audit committee disclosures and in what period they were used more (less) and in which context.

We chose the past tense of the verb because we wanted to see whether audit committees reported in the past tense work which they have done during the year. We ignore the present tense of the verb for now.

6.7.3.1 Reviewed

We observed the following:

In the accounting periods before 2004, none of the audit committees in the sample used the word in their disclosures. However, in 2004 we see that the word making appearance in the audit committee section of the financial report. The number rises gradually through the years and peaked in 2016. By 2016, all audit committees are reporting extensively about the work they have done, the areas they have covered, and specific material items they have dealt with. The pattern showed a change in focus in the work of the audit committee. After analysing the Appendix 2 below, we observed that the word "reviewed" was commonly used in the audit committee report, particularly in the post-SOA period. We found that the words that followed "reviewed" were mainly strong verbs or phrases indicating a group of people or activities, while the words that preceded it were mainly nouns. This suggests that whenever "reviewed" was used in the audit committee report, it was used in the context of an action. For example, 'reviewing effectiveness of internal control' or 'reviewing group's risk management systems'

As part of our procedures, we run the audit reports to see the most frequently occurring in the post-SOA period. From the top of the list, we select two- reviewed and risk. The audit committee's work involved lots of reviewing of management's work and decision making as well as reviewing work undertaken by external auditors. This gave us the justification to see how the word has been used. From figure 25 above, we can see that whenever the word 'reviewed' was used by audit committee, it was followed immediately by a description of an activity. This indicate that the word was not used carelessly but was used to qualify an activity. The increased level of independence

granted under the SOA means the Audit Committee has scope to ask many questions in the line of their duty without fear or favour. This has contributed to the quality of financial reporting in the post SOA period.

6.7.3.2 Risk

We followed the same process with the word ‘risk’ and found similar patters occurring throughout the sample over the selected years. Whereas we find that the word ‘reviewed’ occurred less in all the companies in the pre-SOA audit reports. In all the sample, we find that in the period leading up to and before the SOA, audit committees did not make use the word ‘reviewed’ in there.

6.7.4 Expanded role of Audit Committees and Internal Audit

In the post SOA period, we find that the roles of AC and IA have been enhanced to cover all aspects of IC. SOX requires both the CEO and CFO to jointly certify that not only do exist, but they are working effectively and regularly monitored. Hence the use of AC and IA to monitor the smooth and effective working of these IC become imperative. However, we expect that given UK only listed are not required to comply, this enhanced role of AC and IA will not be found in the annual report. On the contrary, we find that within the period, the both the AC and IA were used heavily to monitor and report on the effectiveness of IC to management.

6.8 External Auditors Reports

The external auditor reports are crucial components of the financial reporting system as they provide the only source of information on the audit process for those external to it (FRC 2021). Prior to 2013, there was no requirement for extended audit reports. In 2013, the FRC introduced the extended audit report, which mandated that auditors

of Public Interest Entities (PIEs) provide significant disclosures regarding their approach and key observations on significant audit matters, known as KAMs. This was followed by the release of ISA 701 in 2016. All of these developments took place after the SOA period. We examine the audit reports of UK-only listed to determine if there have been any changes in these reports within the pre and post SOA period. We find the following.

We find that the audit reports issued before 2002 were similar in nature and read almost the same from one year to another and between companies. We begin on the premise that the audit report is always produced by an independent auditor and therefore, the word independent would be used for avoidance of doubt to assure shareholders and users of the quality or objectivity of the report.

6.8.1 Boilerplate Text Report

We find that before 2002, each of the audit report had a title which did not include the word independent. This can be traced to the table of content and the audit report page. All companies simply wrote ‘audit report’ or ‘the audit report’. There are two types of auditors and of course can be two types of audit reports. We have internal and external auditors. Each company has internal auditors whose remit of responsibilities are clearly defined by management. They are a function within each organisation which helps management to manage controls. They are not independent, and their reports should not include the word ‘independent’ in it, and they are not required by law. They can also produce a report which could easily pass for ‘audit report’. However, the external auditors are different as they are required by law and listing requirement and therefore must always demonstrate being independent as a mark of separation from

management to secure investors' confidence in the annual report. We wondered why this practice has been allowed to persist without questioning from shareholders.

We turn our attention to audit report in the post SOA period and find that immediately after 2002, the title had changed to 'independent auditors report'. The word 'independent' has suddenly emerged as something very 'attractive' and useful such that every company auditor is now making use of it. What is the driving force behind this sudden change of focus and why has become so fashionable for auditors to flaunt their 'independentness' to shareholders? The strength of any audit report lies in its 'independentness' and therefore, it is important that this element is always emphasised in word and indeed. Otherwise, it could be like any other report. We searched the literature and found no other reason – by means of UK regulation or legislation – to explain this sudden change in auditor's behaviour other than the SOA.

6.8.2 List of Statements Audited

We shift our focus to the contents of the independent audit reports in the pre-SOA period and find that each year's report almost the same as the one before. Each of the reports did not identify the various statements that were audited. Each report referred users to certain page numbers where they could find the names of the key statements they have audited. We find it peculiar that auditors do not list the statements they have audited, as one would expect this to be the basis of the audit report for users to reference. Despite this, reports consistently omit the names of these statements. However, we analysed reports issued after the SOA period and discovered a shift in the introductory paragraph of the reports, which took place immediately after 2002. Each company auditors report specifically lists all the names of the statements they have audited as income statement, statement, the balance sheet, the cashflow

statement and notes to the accounts. This is significant in the sense that it immediately lets the reader know what and where the auditors have worked on in order to arrive at their conclusions. The question we ask is why was this missing in all audit reports in the pre-SOA period and why would all auditors make this sudden subtle change from 2002 onwards without any promptings form the UK regulatory environment? We believe this has been influenced by the SOA.

6.8.3 Homogenous Paragraphing

The reports had the same number of paragraphs, same beginning and endings, apart from dates and the same opinion year after year. Clearly, we find a pattern of a standardized boilerplate text adapted and used year after year, without any regard to idiosyncratic nature of each year. The contents were not suited to each particular year as presented, because it is as if no year had different trading conditions from another. One would have expected the auditors to present a report that is consistent with each years' activities and distinct from the previous year. To support the theory of boiler-plateism, we find that there was similar word count from year to year between different companies in the pre-SOA. This made the audit reports in the pre-SOA period so predictable to read and therefore less likely to be taken seriously by any reader. Whether this practice was deliberate or a generally accepted norm, we wanted to find out what happened in the post SOA period.

We find that immediately after the word count began to increase slightly from 2002 and this kept rising through to 2010 after which there was a major spike in them before the extended report requirement was issued in 2013. Finding improvement in the readability of these reports during the post SOA period, we saw traces of subtle details being provided by the auditors, accounting for the increase in word count. We also

find that subtle differences to distinguish one year from the other began to emerge as a gradual break from the boilerplate texts in the pre-SOA period.

6.8.4 Audit - Frequency of Appearance

Audit is an important corporate governance function (Ref). We wanted to see to what extent has the word 'audit' appeared in the annual report in the pre-SOA period and then to determine where there has been any change in focus in the post SOA period. We find that prior to 2002, as seen in Figure 17 below, the word audit appeared sparingly in the annual reports of UK- only listed companies and in all cases, this remained consistently below 50 times appearances before the passage of the SOA. However, immediately after the SOA was passed, we find the word count began to increase across all companies from 2002 and kept rising till 2010 when there was a sudden spike in the 2016. It demonstrates the nuanced effect of the SOA 2002 on UK corporate reporting in a manner that was not expected. From 2004, we see from the graph that increase in the frequency of appearance of the word 'audit' demonstrate the new focus on the effective role auditors play in their monitoring role in corporate governance. We find that there were references to audit in relation to internal control, audit committee, and corporate governance; this continues into 2016.

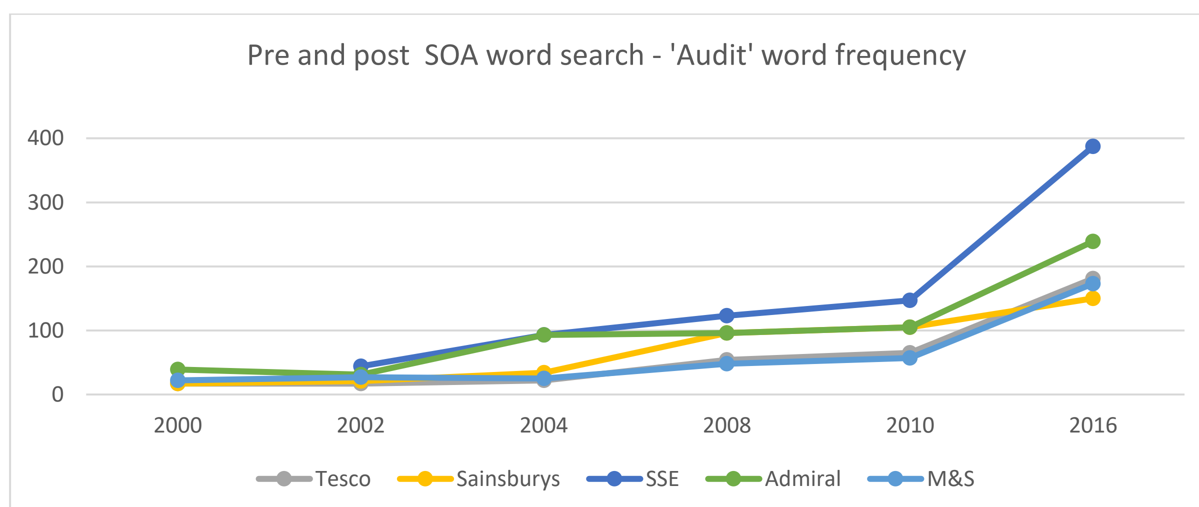


FIGURE 17 AUDIT' WORD FREQUENCY OF OCCURRENCE

6.8.5 Word Count

Following on from the findings from the 'audit' word search above, we examine to see whether there have been any changes in the audit reports over the period under study. We continue with the theme of word count and counted the number words used in each of the selected audit reports over the period under consideration. We find that in the pre-SOA period (2000-2002), all audit reports were under 1000 words, averaging in the 500's. These reports were almost boiler-plate year -on -year except for the change in years of publication. However, with the onset of 2004, we begin to see a sudden increase in word count for all companies as each recorded over 700 words on average for the first time. This development continued progressively into the 2010's to become 2622, 3051 and 2767 for Tesco, Sainsbury, and M&S respectively on average. These increases in word and size of the audit report are suggestive of the new focus on the role of auditors which has been highlighted as a result of the SOA 2002. Sarbanes-Oxley is about disclosure; disclosure of more relevant information to shareholders to enable them to make better economic decisions. Auditors came under the spotlight when Arthur Andersen's role in the collapse of Enron came to the fore in the late 2001. Sarbanes-Oxley Act 2002 therefore shone the spotlight on companies' auditors and highlighted and enhanced their monitoring role in corporate governance in a manner not seen in corporate governance history. Although UK companies not listed in the US do not have to comply with the SOA, our previous discussion on the word search has shown that there was a move by the DTI to introduce radical changes in the work of the auditors in direct response to the SOA in 2003. This thesis asserts that the SOA 2002 has influenced the methods and reporting of auditors in the UK,

whether through direct or indirect means. The basis for this conclusion is the observation that prior to the enactment of the SOA, audit reports in the UK were characterized by their brevity, simplicity, and repetitiveness, with only minor alterations in wording from year to year. It is believed that UK auditors have voluntarily complied with the new disclosure standards, which has resulted in a significant increase in the length of these reports, as shown in the accompanying graph.

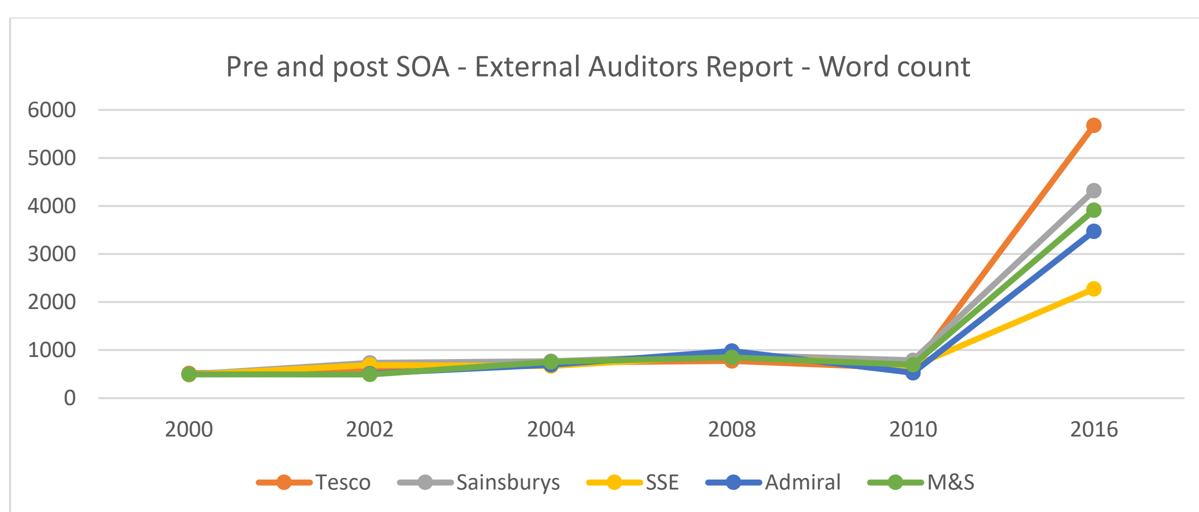


FIGURE 18 PRE AND POST SOA EXTERNAL AUDITORS REPORT

From the graph above, we see that from 2010, the word count for all audit reports began to shoot up for all companies indicating that auditors have embraced a new form of audit reporting and disclosure, which would eventually put an end to boiler-plate audit reports. Auditors of UK only companies are adapting the long report format being required under section 302 and 404.

6.9 Chapter Summary

This chapter has discussed UK-only listed companies specifically examining the corporate governance sections, beginning with the introduction to the section, the audit

committee disclosures, internal control disclosures and external audit reports. We proceed on the basis that UK-only listed companies do not have to comply with the SOA. So, we expect that there should be no changes in these documents before and after. However, when find that document after document exhibited great changes in the post SOA, suggesting that each document has been influenced by the SOA. The changes before and after the SOA were evident: comparatively, there were significant changes improvement in the readability and presentation for each of these documents. We find the minimisation or almost the end of boilerplate reporting across board. These lead this study to conclude that the SOA has influenced UK report.

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CHAPTER SEVEN: APPLICATION OF THEORETICAL FRAMEWORKS TO THE ANALYSIS

7.1 Introduction

In this section, we will use the institutional theory to frame our discussion of the results of this study. The deployment of institutional isomorphism, will help us understand the phenomenon of changes that have occurred in the financial reporting in the UK in the post Sarbanes-Oxley period, brought about by or influenced by SOA 2002. The UK Corporate Governance Code which began in 1992, with its focus on comply or explain, long before the SOA, has been a benchmark for many countries worldwide (FRC 2012). This has shaped the quality of financial reporting disclosures in the UK over the years. However, in late 2001, following the collapse of Enron and their auditor Arthur Andersen, one of the Big 5 accounting firms, there was a loss in market confidence in the US and in order to restore this confidence into the market, the US congress hurriedly passed the Sarbanes-Oxley Act in July 2002. This piece of corporate governance legislation is different in nature, content and requirements from the UK corporate Governance code. Given that UK companies listed in the US were to comply with it, we use institutional theory to help explain whether the observed changes in the financial reporting disclosures in the post SOA was as result of SOA or some other force or a parallel regulatory requirement from the UK.

7.2 Competitive Isomorphism

The concept of competitive isomorphism emerged out of a population ecology framework and was largely developed by Hannan and Freeman (1977), while

DiMaggio and Powell (1983) introduced the idea of institutional isomorphism. Competitive isomorphism involves the pressures towards similarity resulting from market competition. Competitive Isomorphism, according to Winter (1964), can be understood by distinguishing between survival and viability. Survival describes the fate of individual organizations whereas viability, describes the "share of market" of a given organizational form. Hannan and Freeman (1977) suggest that two rationalities exist within the markets sphere – these are organizational rationality and environmental rationality which coincide in the instance of firms in competitive markets. Faced with ever changing competitive trading environment, where consumers and the public have become aware general environmental matters, they form certain expectations from major businesses regarding the environment and therefore react accordingly to whether businesses are perceived to be environmentally friendly or not, for example. Any adverse perception about a given company not keeping up with what major competitors are doing within the market space, can have severe implication for its long-term survival. These can take the form of bad publicity and boycotts and for companies to avoid these unpleasant occurrences, they must reflect on Winter's (1964) survival and viability, whilst weighing up the environmental rationality or organisational rationality (Hannan and Freeman, 1977). These factors compel companies into competitive isomorphic practices to ensure they are making the right choices to meet the ever-increasing changing market environments in order to court legitimacy in the market and to survive the market conditions by behaving in accordance with the generally expected market participants. Farquharson (2018) discusses that in competitive isomorphism, it is the environment that frames the selection and that the competition for survival requires companies to assume optimal forms. Eventually, those organisations which do not take the rights decisions will fail.

Farquharson continues that the state is part of the environment, as it may choose to regulate the system and eventually, this regulation will shape the competitive environment such that organisations which are similar in their responses will be more likely to survive. In the end it is the invisible hand of competition and the desire to remain legitimate which explains this phenomenon. Ketokivi and Schroeder (2004) find that organisations become competitive isomorphic due to the economically motivated mimicry through imitation of competitive actions, when the pressure to conform in a competitive environment is irresistible. Norman et al., (2007) confirm that the pressure to conform to legal, social, or professional norms confers the legitimacy needed to acquire resources and support. It is a survival matter.

From our study, we find evidence which finds its meaning in in competitive isomorphism. From 2002, after the passage of the SOA, UK SOA compliant began preparing to comply the most relevant section notably sections 302 and 404. These led to changes in the reporting disclosures of internal controls, audit committee disclosures and statutory audit reporting.

Including the qualitative analysis of the results, we will apply the aforementioned competitive theory to clarify why, despite different regulatory standards and varying geographical locations, the three banks exhibit similar or dissimilar conduct. This indicates that businesses adopt competitive practices and conform to public opinion to endure. Given the global attention to the climate emergency, it is unsurprising that these firms have become competitively isomorphic.

7.3 Competitive Isomorphism

Isomorphism results when firms standardize their technical operations around common sets of designs and processes in the same competitive arena tend to be

structurally equivalent in terms of their actions, structures, technology, and processes (Abrahamson and Fombrun, 1994), whereas firms that depart from accepted and institutionalised actions and structures risk losing legitimacy and support of key constituents (Norman, Kendal and Martinez 2007).

The concept of competitive isomorphism emerged out of a population ecology framework and was largely developed by Hannan and Freeman (1977), while DiMaggio and Powell (1983) introduced the idea of institutional isomorphism. Competitive isomorphism involves the pressures towards similarity resulting from market competition. Competitive Isomorphism according to Winter (1964), can be understood by distinguishing between survival and viability. Survival describes the fate of individual organizations whereas viability, describes the "share of market" of a given organizational form. Hannan and Freeman (1977) suggest that two rationalities exist within the markets sphere – these are organizational rationality and environmental rationality which coincide in the instance of firms in competitive markets. Faced with ever changing competitive trading environment, where consumers and the public have become aware general environmental matters, they form certain expectations from major businesses regarding the environment and therefore react accordingly to whether businesses are perceived to be environmentally friendly or not, for example. Any adverse perception about a given company not keeping up with what major competitors are doing within the market space, can have severe implication for its long-term survival. These can take the form of bad publicity and boycotts and for companies to avoid these unpleasant occurrences, they must reflect on what Winter (1964) describes 'survival and viability', whilst weighing up the environmental rationality or organisational rationality (Hannan and Freeman, 1977). These factors compel companies into competitive isomorphic practices to ensure they are making

the right choices to meet the ever-increasing changing market environments in order to court legitimacy in the market and to survive the market conditions by behaving in accordance with the generally expected market participants. Dowling and Pfeffer (1975) describes legitimacy as a social construct which reflect the congruence between shared belief between entity and a social group.

Changes in Quality of Reporting in UK Post SOA

Farquharson (2018) discusses that in competitive isomorphism, it is the environment that frames the selection and that the competition for survival requires companies to assume optimal forms. Ultimately, those organisations which do not take the rights decisions will fail. Farquharson continues that the state is part of the environment, as it may choose to regulate the system and eventually, this regulation will shape the competitive environment such that organisations which are similar in their responses will be more likely to survive.

The natural desire for survival leads to competitive isomorphism which then explain why organisations behave in a mimetic isomorphic way when faced with the choice of survival and legitimacy.

Competitive isomorphism can be used to explain the findings of our study when viewed from the angle of how UK companies embraced and adopted and applied some key corporate governance principles of the SOA 2002. From our study, we find that no sooner had the UK SOA compliant companies began to comply with the Act, evidencing all the requirements under sections 302 and 404, where management began to make extended and much detailed disclosures about internal controls and issuing statement of attestations to that effect; when Audit Committees began to produce extensive report about their activities in the financial reports. When external

auditors began to report on internal controls and introduce changes in the audit reports, we find that by 2007, most UK non- SOA compliant had begun to mimic this new style of financial reporting without any compulsion. We infer that it is the end it is the invisible hand of competition and the desire to remain legitimate which explains this phenomenon. The changes introduced into the reporting disclosures of UK only listed companies proves this point. T Ketokivi and Schroeder (2004) find that organisations become competitive isomorphic due to the economically motivated mimicry through imitation of competitive actions, when the pressure to conform in a competitive environment is irresistible. Norman et al. (2007) confirm that the pressure to conform to legal, social, or professional norms confers the legitimacy needed to acquire resources and support. It is a survival matter.

Insert the qualitative analysis of the findings and we shall use the above competitive theory to explain why the three banks are behaving in similar/dissimilar manner even without any common regulatory standards and despite their geographical location differences. Clearly, what this tells us is that companies follow competition practices and public perceptions in order to survive. With wave of climate emergency awareness worldwide, it is hardly surprising that these companies have become competitively isomorphic.

The fact that these three major banks are exhibiting similar environmental practices from different parts of the world without any binding regulation is in itself very interesting. Pfeffer and Salancik (1978) assert that firms pursing or possessing comparable resource positions are most likely to have similar relationship that leads to what they call structural equivalence. This structural equivalence, according to Abraham and Salancik (1978), leads to greater homogeneity of beliefs regarding

competitive boundaries and actions. Does this theory explain why there is so much similarity among ESG practices?

Institutional Isomorphism

Explore the tension between strategic conformity and differentiation on firms needs to balance the pressures between conformity and differentiation

7.4 Institutional Explanations of Changes in UK Corporate Governance Disclosures Post SOA 2002

Organisational environments are made up of elaborate rules, requirements, and normative expectations to which individual organizations may conform to receive support and legitimacy from both internal and external constituencies. These norms and rules may emanate from regulatory agencies authorized by the nation-state, from professional or trade associations, from generalized belief systems that define how specific types of organizations are to conduct themselves, and from other similar sources (Luoma 2010). Organisations in attempt to maintain legitimacy use their structures within them to comply with these norms and regulations. Meyer and Rowan (1977) find that organizations use the structures within them as symbols of compliance with externally legitimated expectations to reduce turbulence and maintain stability both within themselves and the market. The SOA although was passed in the US and applicable to all companies listed on the major markets of US, it also applies to all foreign companies listed on the major markets. Hence in the wake of its full implementation, many foreign companies listed in the US had to make the necessary adjustments to ensure compliance in order to maintain their listing status in the US as well as legitimacy in the eyes of the market

7.5 Institutional Isomorphism

Hawley (1968) describes isomorphism as a process that forces one unit in a population to resemble other unit that face the same set of environmental conditions. DiMaggio and Powell (1983) identify three general types of institutional isomorphism: mimetic, coercive, and normative. While these are separate in themselves, they can all operate together in each situation. DiMaggio and Powell (1983), institutional theory provides a sociology- based alternative perspective to the economic based ‘‘utilitarian, actor-interest models'' (DiMaggio 1988, 16) that dominate accounting research and frame how academics communicate and understand accounting issues (Ferraro et al. 2005).

This theory explains the forces that act on members of an organizational field and causes them to change behaviour. Furthermore, the theory explores how assumptions become beliefs that influence individual choices (Tuttle and Dillard, 1978). The basic tenet of institutional theory is that an organization's survival requires it to conform to social norms of acceptable behaviour (Baker et al., 2007). The SOA was passed in response to the spectacular collapse major companies in the US, notably among them Enron and the loss of one of the Big 5 accounting firm, Arthur Andersen. It was passed with the intention to bring behavioural changes in the America corporate Boardroom to restore investor confidence in the market after Enron. We use DiMaggio and Powell (1983) institutional Isomorphism to frame our theoretical understanding of how the SOA affected management of affected organisations in the UK as well as the various related institutions changes in the UK as direct result of the SOA. We shall proceed coercive isomorphism.

7.6 Coercive Isomorphism

Coercive isomorphism results from both informal and formal pressures exerted on organisations by other organisations upon which they depend and by cultural expectations in the society in which it exists (DiMaggio and Powell, 1983). It is also the process whereby an organization or organisations influences or influence another through the exertion of both formal and informal pressures exerted on organizations who depend on them. (DiMaggio and Powell, 1983: 150) and one of the major sources of these pressures is from the legal environment (Meyer and Rowan, 1977; Pfeffer and Salncik, 1978). Suchman (1995) finds that institutions respond to threats to legitimacy with organisational change and organisational communication. The SOA being the first corporate governance regulation with the threat of fines or imprisonment or both for non- compliance, originally meant for US markets, came under attack in the UK from all sections of society when it became apparent it has extra-territorial reach. That is to say that all foreign companies listed in the US major markets must comply. Many UK firms who had listings in the US, threatened to delist from the US markets as a result. The 'comply or explain' principles-based corporate governance in the UK does not put any pressure on companies apart from being able to explain why a disclosure was not or will not be made. This is almost to say they have the flexibility to disclose whatever they like to, if they can explain why they will not want to disclose, whereas the US SOA operates on 'comply or else bases. In this study, we examine the role of coercive isomophormism on UK companies that had listing on the US. The SOA pressure of compliance had institutions such as the Securities and Exchanges Commission (SEC), the Public Company Accounting Oversight Board (PCAOB) and the Department of Justice (DoJ) all ready to act to punish offending management who deliberately refuse to comply.

7.6.1 Key Provisions – Sections 302, 404, 906

SOA imposes a series of new mandatory requirements on public companies both within and outside the US which have listing in the US and on the gatekeepers of corporate governance including, officers, directors' auditors, attorneys and security analysts (Prentice, 2003). The law requires all US companies listed in the US and those seeking continued listing in the US must comply. The contentious provisions are the Sections 302, 404 and 906. For example, section 906 addresses criminal penalties for certifying a misleading or fraudulent financial report. This can be fines in excess of $5m and 20 years in prison as below.

Whoever (1) certifies any statement as set forth in subsections (a) and (b) of this section knowing that the periodic report accompanying the statement does not comport with all the requirements set forth shall be fined for not more than $1m or imprisoned not more than 10 years, or both; or (2) wilfully certifies any statement as set forth in subsections (1) and (2) of this section knowing that the periodic report accompanying the statement does not comport with all requirement set forth in this section shall be fined not more than $5m or imprisoned not more than 20 years, or both.

Section 302 focuses on disclosure controls and procedures and requires personal accountability of both the CEO and CFO for the first time in corporate governance history. Under 302, the CEO and CFO must sign a SOA document certifying that they take responsibility for it being true and that they are responsible for disclosing all the relevant procedures and for detailing any changes that have taken place during the period. Section 404 on the other hand requires management – CEO and CFO to certify adequate processes and procedures are in place to manage risk through monitoring and measuring of internal control risks that are associated with financial reporting. In addition, it also requires the entity's external auditors to sign a report that effective internal control systems are in place as certified by management.

Institutional theory helps us to understand the disclosure behaviours of UK companies over the period. Unlike the UK 'comply or explain' corporate governance regime, the SOA has a clear threat of pressure to comply. Apart from being expelled from the US markets for non-compliance, the immediate penalties of non-compliance also include fines or imprisonment or both for corporate executives. The executives to be affected are specifically named as the CEO and CFO, who must certify documents with signatures. This coercive pressure of compliance with the SOA has led to UK companies' annual reports exhibiting different features in the post SOA period than the period before it. Evidence from our analysis from our sample population suggest that there has been changes in the corporate governance disclosures post SOA and the question we asked is that has these changes occurred as a direct result of the specified penalties of non-compliance or are they due to internal pressures coming from the UK either governmental or institutional? The observed changes in the corporate governance narratives have been shaped by 'something', a force which we believe is the SOA 2002.

Coercive pressures can be used to explain the manner and speed of changes in the behaviour of management of UK SOA compliant companies immediately the Act was passed. We find that prior the passing of the SOA, UK SOA compliant did things differently.

The presentation of corporate governance is similar among sampled companies in many respects. Some do not have a clear section with the title, those that had one, had presented them in the middle of the report and some at the far end of the report. The introductory paragraphs communicate a fulfilment of agency responsibility to shareholders. In extreme case one company begins the section by quoting verbatim Cadbury's definition of corporate governance. In terms of positioning, corporate

governance disclosures were almost in the middle or the last pages of the reports. Pre-SOA era is characterised by often unorganised structure making it difficult for readers to understand. For instance, the chapter is not properly structured to enable shareholders to follow. The presentation is often done in such a way to make it difficult for understanding by the untrained eye. The chapter presentation has agency information provision in mind. Whereas all the companies reported on the board committee, notably the audit committee, the nomination committee, the remuneration committee, often very little was said in terms of the actual work done apart from the remuneration committee, whose full activities was reported in some reasonable detail. Again, the three committee was common among all companies, denoting that all of them were doing the same thing to fulfil the agency cost requirement.

Our findings suggest that all the UK companies listed in the US have revamped corporate governance sections in the financial reports in the post SOA period of our study than the period before it. SOA was all about restoring investor confidence in the market after the collapse of Enron and Arthur Andersen in the late 2001. Consequently, the sweeping reforms required UK listed companies to make more disclosures in the annual reports. Though the corporate governance section was not specifically mentioned, we find that all the SOA compliant companies both in the US and UK began to change the way the section is presented.

Focusing on only the introduction section, we find that, unlike the period immediately before the passage of the SOA, the corporate governance Figure (). The section begins with the chairman's address specifically to the shareholders. There are many references to shareholders as direct recipients of the report. The shareholders are referred to with a pronoun 'you' to denote that the chairman was addressing them directly in contrast to the way the section was presented in the pre-SOA period. Similar

features were also found in the reports of UK companies not listed in the US, even though there has been no UK corporate governance requirement for such enhanced disclosures to be made. For example, a better communication technique being used in the Chairman's report to address the shareholders using words of endearment and lots of pronouns. The section is no longer a bland repetition of same words year after year. We also found that the contents of corporate governance section have become better by the rich themes that have become permanent features of the section in the post SOA period. These include references to good governance, risk assessment, the general market condition facing the business. More have been disclosed in the post SOA period of our study than any other period in the UK corporate governance history, which leads us to believe that all these have been done to respond to the requirement of the SOA, which was passed to restore investor confidence in the markets.

The introductory sections of the corporate governance section changed significantly in the post SOA period. Evidence from our study suggest the impact of coercive isomorphism at work in UK SOA complaint companies of UK companies listed on the US we find evidence of coercive pressures at work. We put this down to two factors – regulatory and legitimacy.

In the Post SOA era, these reports are made to with the view to provide or to improve public confidence in financial reporting, which is a primary objective of the Sarbanes-Oxley Act 2002. The corporate governance included more personal pronouns- as in management directly addressing shareholders in a manner which had never been done before. The awareness created by the SOA following the collapse of Enron meant that every management, especially, those who are listed on the US market had to be seen to be making improvement in their corporate communication with shareholders as part of demonstrating effective governance. We find the sudden use

of pronouns in the section as very encouraging. We also find the use of politeness phrases in the section. Financial reports are not known for such endearment phrases such 'dear' and 'please' etc. However, whereas in the pre-SOA period none of such phrases were ever used, we find it interesting to see these phrases making appearances in the post SOA period. It must be acknowledged there is nowhere in the SOA where management are required to show politeness to shareholders. If anything at all, this can only be nuanced or subsumed. So why these changes? It is our view, based on the findings that management of these companies were responding to the overall threats of compliance of the SOA and that led them to begin to communicate differently with shareholders

7.6.2 Internal Control

Our findings from examining internal controls in UK SOA compliant firms show that there was a remarkable change in the way internal controls were presented in the post SOA period than the period before it. Section 404 of the SOA requires all SOA compliant companies to evaluate and report on the existence and effectiveness of their internal control on an annual basis. It also requires the entity's external auditors to attest to the effectiveness of the internal controls. The UK CG code does not specifically require a report of such nature in the annual reports. In our analysis, we find that in the post SOA period, internal control evaluation and reporting have been given prominence in the annual report. Whereas in the pre-SOA period (1999-2004), internal controls reporting was almost boilerplate, we find in our analysis that in the post SOA, internal control reporting and disclosures have changed offering better insight of the processes that have taken place within the year to shareholders and other stakeholders. Not only has the volume changes in terms of word count, but the contents are also richer with the inclusion of themes such as risks which the entities

faced and how these have been managed during the period. The fact that the CEO and CFO must certify these control reports have meant that those charged with governance of these organisations must ensure that all the disclosure control measures have been followed because they cannot hide anymore and plead ignorance. The joint certification and the auditor attestation requirement of controls coupled with the consequence of false certification under the SOA may be a deterrence factor which is causing these changes in UK financial reporting. Given that the auditor's negative attestation will impact harshly on the affected company, management will do well to ensure that verifiable internal control measures evidence is made available to auditors. We can infer from the foregoing that UK SOA complaint management have made these detailed disclosures for the very reasons not wanting to face a potential clash with the SEC of the US, who will then get the Department of Justice (DoJ) involved for possible prosecution; the avoidance of bad publicity; and the need to court market legitimacy. All these are coercive pressures which we believe, is accounting for a change in disclosure behaviours among UK -SOA compliant companies. Disclosures of strong internal controls system provides confidence in the information given to the market. Hence, any publicity about a company's litigation with the SEC over such matters may not inure to the good image of the company concerned. We can conclude that far from being impression management, the improvement in the disclosures of internal controls processes in the UK SOA compliant companies, have been driven by the SOA, which has the potential to command confidence in the shareholders and users of accounts.

7.6.3 Audit Committees

Evidence from our study suggest that coercive pressures has contributed to the improvement in audit committees' disclosures in the UK since SOA 2002. These

include the increases in word count of audit committee reports, the quality of content of the reports, the inclusion of the word 'independent' to qualify the non-executive directors, and the disclosure of financial expertise member of the committee.

Audit Committee disclosures of all UK companies in the pre-SOA period was characterised by boiler-plateism, with limited words, no specific details provided, and, in most cases, the committee did not present any report for inclusion in the annual report. What we find, was the generic description of functional role of the committee in the pre-SOA period. This practice was consistent among all companies in our sample, even though they are all required to submit annual report to the US using Form 20-F. However, immediately after passing of the SOA, we find all these companies almost abandoning the boiler-plate disclosures to a much more detail disclosures of the activities of the committee. Audit Committees have existed and been functioning long before the SOA. We believe that the coercive pressures of the SOA are the reason for the change, even if these are seen as cosmetic. We find no evidence of regulatory or legislative requirement mandating a change in audit committee reporting prior to or immediately after the SOA was passed in 2002. Meyer and Rowan (1977) find that coercive pressures can occur as a direct response to government mandate. However, we find no such governmental mandate from the UK which could have caused the immediate changes to the audit committee disclosures. This leads us to suggest that the audit committee changes that began to emerge after the SOA was due to the pressures of compliance that came with it from SEC and DOJ. Krell et al. (2009) find that coercive pressure is determined by the institution that exerts the pressure. There was no such institution to exert the pressure which could have accounted for the changes in the audit committee disclosure practices. Audit Committee reports now enable users to have a good understanding of some of the risk a company faces.

These disclosures improve the information environment by ensuring that the market to better assess risk associated with different companies (Ashbaugh-Skaife et al. 2009) Organisations are increasingly homogenous within given domains and increasingly organised around rituals of conformity to wider society (Meyer and Rowan, 1977). The SOA, we believe is has been the major drive in the universal change in reporting and disclosures of the Audit Committee activities to the market.

7.6.4 Independent Non-Executive Directors

In addition, we find that whereas in the pre-SOA period each AC was made up non-executive members. Immediately after the passing of the SOA, we find that each company began to include the word ‘independent’ to qualify the NED’s. Now each company discloses to the market that the AC is made up of Independent Non-Executive Directors. Meyer and rowan (1977) opine that organisation are increasingly homogenous and are organised around common rituals. We see this homogeneity in response to the requirement of the SOA. The change occurred in all the sample immediately after 2002. Far from being a window dressing exercise, we find that the AC is no longer referred to as ‘assisting management’ but as a committee that is independent in operation as reflected in the composition. What this tell us is that these organisations know how and what to do but, in most cases, without the right regulatory environment, the right kind of pressures, they will probably do the minimum. The UK Corporate governance regime operates on comply or explain basis and therefore, in absence of any such pressure coming from the US, these companies will choose not to disclose more. Coercive isomorphism helps us understand this phenomenon and to explain or offer some explanations as what can cause changes in managerial behaviour in the interest of shareholders. The threat of being fined or imprisoned or both by the SEC, quickly caused a change in management disclosure behaviour.

7.6.5 External Auditors Reports

Coercive isomorphic pressures can also be used to explain the behaviour of external auditors of SOA complaint companies. For the first time in CG history, auditors are required to attest to these internal controls in a report to the SEC under Section 404b. We find that by this requirement, auditors disclosed that they have performed more substantive testing procedures on transactions, which culminated in much detailed audit report. Substantive testing is a test to detect material misstatement in accounts or class of transactions. Given the new requirement for auditors to attest to the internal controls, we find that all external auditors in our sample began to exhibit some changes in their reports. We also find the end of boiler-plate audit reports in the post SOA period and each report in each year read slightly different from the year before, unlike the pre-SOA period where all the audit reports read and look the same, had the same word counts and contents showing that each year's was procedures and findings are the same as others except for dates. But the post SOA period reports were different. Gradually from 2004 through to 2013, these reports became less different from one audit firm to another and from one year to another. The word counts began to increase and some differences began to appear, distinguishing one year from another.

7.7 Mimetic Isomorphism

Not all institutional isomorphism occurs through the use of coercive force. Institutional theory teaches us that sometimes companies voluntarily copy their peers in a process called mimetic isomorphism. Mimetic isomorphism refers to the practice where institutions imitate other institutions which they consider as more legitimate and successful (DiMaggio and Powell, 1991). Mimetic forces are defined as the forces which leads to benchmarking of one company by another either in the same industry

or other sectors. Mimetic isomorphism, according to Tuttle and Dullard (2007), emerges in a field's formative phase or during a reformulation phase brought about by a major innovation. Companies make efforts to copy or mimic best practices of their peers in so far as it is practically possible. Sometime these is done for companies to maintain legitimate in the market. In this regard, it can be said that legitimacy can also force a company to mimic others, especially if this has been induced by the market and thus acting as a force which compels other companies to adopt good practices of other companies. Mimetic behaviours are of the nature of imitation or mimicry (Random House 2011). Sometimes, pressures from similar size companies may force companies to adopt new measures as they seek to benchmark or copy best practices from other companies either in the same industry or geographical location.

Mimetic isomorphism is evident in the way companies in our sample of SOA compliant UK companies presented their disclosures in the financial reports in the post SOA. By examining mimetic isomorphism, we are trying to identify if UK only listed companies, that are not SOA compliant, will be disclosing similar levels if not the same as UK SOA compliant companies. Beginning from the corporate governance section, we find that by 2006, all were UK only listed companies were disclosing in a similar manner as their SOA compliant counterparts. The use of personal pronouns and politeness in corporate governance sections, which was non-existent in the pre-SOA period and only began, as we found, had become a key feature of the corporate governance section after the SOA. Without any specific guideless from the UK corporate governance regime, we find that the UK non-SOA compliant companies began to copy this practice by 2008 and we ask why are they doing this without any UK regulatory requirement? We can infer that the good disclosure practices which had begun in the SOA complaint companies was beginning to filter down to non-compliant companies.

One reason we adduce, is the need to maintain legitimacy with the market. It is also possible that given most of these companies are audited by one of the Big 4 auditors, these are spreading the news of good practice. By the end of 2008, we find that there was no difference in the corporate governance disclosures made by UK SOA compliant and UK -only listed companies. The corporate governance sections, the audit committee disclosures, internal control disclosures were all looking similar from one company to another. It is obvious the UK only listed companies were copying the reporting practices of the UK SOA complaint counterparts. Hanson (2001) notes that mimetic isomorphism occurs when organisations consciously model itself after another that it believes it has achieved high level of success and achievement in the public eye. The quality in the financial reporting disclosures of SOA compliant companies began to be noticed. Fortunately, all the companies in our sample are audited by the Big 4 Auditing firms, which then, we believe made it easier for good practice to be shared among companies they audit thus encouraging the mimetic process.

Evidence of changes in the UK audit reports also began to emerge getting to the end of 2010, which also support the theory of mimetic isomorphism in the sense that we find over time, all audit reports for both UK SOA compliant and non-US compliant looking the same. The absence of diversity between these two sets of samples suggest that the UK only listed companies have adapted their audit reports or at least have agreed for their audit reports to be modelled on the audit reports of SOA compliant companies. DiMaggio and Powell (1983) argue that with mimetic isomorphism, practices in organisational field become similar among similar organisations. The disclosure requirements of SOA, which was passed to restore investor confidence in the US after the collapse of Enron have been criticised in the

UK in the past for its extraterritorial reach, which critics fear will make UK companies listed in the US uncompetitive due to costs of compliance.

The second reason, we suggest, could be legitimacy- market legitimacy. Meyer and Rowan (1977) find that “organisations that incorporate societally legitimated rationalised elements in their formal structures maximise their resources and survival capabilities” (355). Similarly, Hanson (2001) notes that mimetic isomorphism occurs when organisations consciously model itself after another that it believes has achieved high level of success and achievement in the public eye. We argue that the more UK companies imitate the corporate governance structure from the US, the more it shows confidence, good faith in both internally and externally. For example, where the market is seen to be complimenting the enhanced disclosure requirements of the SOA, it therefore becomes ‘attractive’ for UK companies not listed in the US to wanting to imitate such good practices, especially where these have implications for capital raising prospects and analysts reporting in the markets. The combined effect of mimetic isomorphism is evident in the way all the companies in our sample are now using similar style to present corporate governance reports, internal control reports, audit committee disclosures, as well as reports and audit reports.

There is also evidence of mimetic isomorphism at national level. Given the huge criticism levelled against the SOA at the time of implementation, it comes as a surprise to find evidence that the UK is actively moving towards embracing or at least copying parts of SOA into its corporate governance system. All the major stakeholders- government, the regulator and the accounting profession are seriously pushing for a SOA -style UK corporate governance code. As a case in point, the CEO of Financial Reporting Council is on record to have said that

“The UK is likely to adopt some form of Sarbanes-Oxley-style safeguards on financial reporting”

7.8 Normative isomorphism

Organizations are influenced by normative pressures which are placed on them (Meyer and Rowan 1977, DiMaggio and Powell 1983 and Zucker 1987. These pressures, according to the institutional theorists, often come from the state and other regulatory bodies. To become isomorphic with these institutionally prescribed expectations, organizations must make changes to their structural arrangements (Slack and Hinings, 1994). Normative isomorphism being the third aspect of isomorphic pressure in organisational change, takes its root primarily from professionalisation (DiMaggio and Powell 1983). This process occurs through two mechanisms: a transmission of norms by professionals and the development of professional networks (DiMaggio and Powell 1983). The companies in our sample all have one thing in common: they all chose auditors from the Big 4 Accounting firms. These accountants are at the top of the profession and all of them subscribe to UK and US accounting and auditing standards. There was crisis in confidence of the accounting profession to regulate itself in the US after the collapse of Enron and Arthur Andersen. To bring standardisation in behaviour and practices of the accounting bodies in the US, Congress through the SOA set up the Public Company Accounting Oversight Board (PCAOB) to regulate the work of public accountants. This mandated the Securities and Exchanges Commission (SEC) to monitor and review the work of public accountants, all aimed at reversing the crisis in confidence in the stock market. At the same time, in the UK Government commissioned a review of the independence of the auditor to ensure that ‘Enron’ cannot happen in the UK. After Enron, the

accounting profession came under the spotlight, in particular the auditors, which has caused the accounting profession to undergo reforms in response to pressure from the market. De Villiers and Alexander (2014) posit that 'training and professional membership socialise individuals into common beliefs regarding what constitutes accepted norms" (p.206). The SOA requirements for CEOs and CFOs under sections 302 and 404 has meant that all such officers in listed companies and compliant with the SOA must adhere to certain acceptable norms. This common adherence diminishes diversity in practices leading to normative isomorphism in the way disclosures are made. We find in our analysis that CEO and CFOs of our 2 sets of sample population are conforming to the accepted norms of behaviour in the way they report on corporate governance, internal control disclosures. Rather interestingly, it is the way CEO and CFOs of UK only listed companies (not obliged to comply with SOA) that caught this researcher's eye. De Villiers and Alexander (2014) suggest that perhaps the training and professional membership socialise membership into common beliefs regarding what constituted accepted norms. We are of the view that whereas these individuals may no doubt be highly educated, we are unable to support the view given by de Villiers and Alexander as forming the basis for the common behaviour. What in our opinion, can be a possible factor in this normative isomorphism among management of different companies in the UK might be the market?

Normative isomorphic pressures have impacted on the disclosure patterns and professional behaviours of auditors of both SOA compliant and non-compliant companies in the UK. Adhikari et al. (2013) discuss that professionals act towards disclosure requirements can be influenced by their education and qualification. The result of their rigorous education and training to qualify as accountants as well as the

professional requirements of being members of the accounting profession behove them to subscribe to common behaviour as accountants.

Furthermore, the disclosure requirements of SOA which was aimed at addressing the crisis in confidence in the accounting profession after the collapse of Enron leading to the fall of Arthur Andersen, meant that accountants and company auditors were keen to show themselves to the investing public as having turned a 'new leaf' and are thus prepared to learn lessons from Arthur Andersen by following the requirements of sections 302 and 404b of the Sarbanes-Oxley Act to make sufficient disclosures in their reports of the internal controls over financial reporting and in the audit reports. The extent to which these normative pressures are driven by the SOA only may be premature to conclude in this study. However, what is evident is that in the UK, there has been series of political and industry efforts since SOA to address auditor independence and some suggestions to bring some form of SOA-style audit regulations.

7.9 The Role of Isomorphism in New Developments in Institutional and Reporting Framework Changes in the post SOA UK

In 2012, the FRC made co-ordinated changes to Auditing Standards and to the UK Corporate Governance Code. These changes set the requirement for boards to ensure that the annual report of a company should present a fair, balanced and understandable assessment of the company's position and prospects, and for Audit Committees to formally report on their activities in Annual Reports. Consequently, we find that from 2013 onwards, all UK listed companies are making more disclosures on top of the requirements of the SOA changes which had begun from 2002 to 2013. These developments support our view that management respond to coercive

pressures to make the necessary changes in corporate reporting. The same can be said of auditors as they responded to requirement to disclose more of their procedures and processes undertaken to arrive at their opinions. This requirement and addition to the more disclosure requirement by the SOA have changed audit reports from the boiler-plate report which used to be the norm in the pre-SOA period to a more elaborate report which captures key audit matters (KAM) and how these have been dealt with by auditors on the journey to arriving at the audit opinion. The impact of coercive isomorphism thus helps us to understand what can give rise to changes in the behaviour of management and auditors. Given the coercive pressures from both the SOA and UK FRC, we have better disclosures by management, audit committees and external auditors- thus leading us to suggest that some form of pressures work. Corporate governance disclosures in the UK are changing for the better.

We also find evidence of normative isomorphism as more and more UK only listed companies began to make disclosures as if they are compliant with the SOA. We can infer that these practices may have played a part in the new direction the UK regulators are heading.

The UK financial reporting regulator, the Financial Reporting Council (FRC) has come under pressure by the government to justify its existence with the latter hinting at replacing it (FRC) with something else more powerful. Badenhors (2019) reports that the UK government was looking at changing the current FRC and replace it with a powerful regulator following the Kingsman's recommendation. From the date of the announcement, there has been coercive pressure on the FRC to prove their legitimacy. Consequently, we see evidence of UK regulators moving towards the embracement and adoption of an adapted SOA style regulation in the UK. In his

address to delegates of FTSE 350 the chief executive of FRC, in a Zoom conference, Sir John Thompson, put it more bluntly in his opening address that:

“The UK is likely to adopt some form of Sarbanes-Oxley-style safeguards on financial reporting”

This is a statement no one would have dreamt of nearly 20 years ago when the SOA was passed. At the time, all the major stakeholders were saying that the SOA would be costly and would also make UK companies uncompetitive in the US and therefore asked the government to make representations to the US to exempt UK companies from compliance. Many UK companies threatened to delist from the US stock markets. The ground has shifted very radically, and UK corporate governance disclosure regime is witnessing some form of evolution on the back of SOA.

On internal control disclosures, Sir John Thompson, the CEO of FRC made this remarkable observation about the direction of UK.

“The Institute of Internal Auditors' new standard published earlier this year was a helpful reminder of the impact of a quality internal audit function which we very much support, whether ministers push ahead with the legislative change on UK SOX or not. It will be relatively easy for us to raise the bar further with revisions to the corporate governance code, or for us to include reporting on internal controls in minimum standards for audit committees.”

The UK does require disclosures on internal control over financial reporting in the annual reports and the requirement by SOA for compliant companies to make such disclosures was one of the thorny issues raised by the UK on SOA compliance. The Section 404 and 302 of the SOA mandates reporting on internal controls by both management and their external auditors. It is therefore very interesting to read from

the CEO of FRC openly extolling the virtues of internal control disclosures and suggesting that such a requirement is long overdue in the UK corporate governance.

The SOA was passed to restore confidence in the markets and after 20 years, and consistent with the findings of our study, the CEO of FRC, Sir Thompson has also reiterated the same in a message calling for a new 'good' framework by saying that.

> "high-quality audit is essential to maintaining trust and confidence in the UK financial markets. If the UK is to retain its position as a world-leading professional services marketplace"
>
> and continues that, "outstanding audit quality and rigorous professionalism is needed".

Based on the improvement in the quality of financial reporting including the quality of audit reports and processes in the post SOA period, Sir Thompson said they have seen improvement programmes in some firms and that they are making recommendations to the UK government to implement many changes in the white paper, which includes the strengthening of the regulator's oversight of audit in addition to changes in the reporting framework. Commenting on the connection between financial reporting and audit, Sir Thompson stated that higher corporate governance standards will flow through to higher quality audit which will eventually lead to confidence in the markets. This view is widely shared by the accounting profession.

Another key stakeholder, Iain Wright, the Managing Director of ICAEW's Reputation and Influence also said the following concerning the relevance of SOA to the UK regulatory:

> "That a strong and proportionate system of Sarbanes-Oxley style internal controls will act as a spur for improved financial reporting, reduce the risk of fraud and failure and boost audit quality. … "this will focus the minds of directors on the controls in running their companies and crucially, hold them to account, which will in turn reassure investors, leading to more

> investment, more innovation, greater competitiveness and productivity and more jobs. He concluded "Failure to put this on the statue book would be a real missed opportunity"

In a similar vein, in 2019 Sir Donald Brydon, the former chairman of London Stock Exchange, in his review of the audit industry in the UK, highlighted the need for better controls over financial reporting and suggested that a "UK Sarbanes-Oxley Act (SOX)" framework – with CEO's and CFOs of major listed UK companies giving a statement on internal controls over financial reporting (ICOFR), reporting on any weaknesses - much like US Sox should be adopted.

The timing of these observations and recommendations for the adoption of some sort of SOA- style UK corporate regulation is very pertinent as they coincide with the 20th anniversary of the passing of the SOA and the conclusion of this study, which began almost seven years ago.

We can see that the power institutional isomorphism is not limited to UK companies but has also found relevance in the national debate on corporate reporting. The combined effect of the findings of this study and what is being proposed by the regulator and the profession suggest to us that the SOA is not only impacting on UK financial reporting, it is also concentrating the minds of the major stakeholders such as the government, the regulator and the accounting professional as well as the market and thus leading to a paradigm shift from comply or explain corporate governance culture in the UK to some form of regulatory framework being envisaged by these key stakeholders.

Even though this study cannot point to a single fact of some direct pressure as the main driver for the evolutionary changes as suggested by the key stakeholders, what we can infer is that from 2002 to 2020, there has been visible positive changes in the

quality of financial reporting in the UK. It has been an evolution rather than a revolution and this process is almost coming to a head with the key stakeholders calling for almost a wholesale adoption of SOA style corporate governance framework for the UK. We believe the major shareholders have been forced or pressured by the emerging quality changes in financial reporting since 2002 to act. To that extent, this observed phenomenon is consistent with this study's observation that coercive pressures, mimetic forces and normative isomorphism have contributed to the changes taking place and what are being suggested in UK financial reporting disclosure practices.

7.10 Chapter Summary

This chapter has used an institutional theory to explain the changes that have taken place in UK financial reporting since the SOA. Part of the reasons is that isomorphic forces provide compelling processes which force a unit in a population to resemble other units that are exposed to the same environmental conditions (DiMaggio and Powell, 1991) DiMaggio and Powell (1983) discusses three main institutional pressures, namely coercive, mimetic and normative isomorphisms. The authors argue that the end results of institutional isomorphism are homogenization which results from a decrease in in variation and diversity in corporate reporting practices. The effect of the SOA on UK financial reporting, from our study can be very considerable. We have evidence of changes in managerial responses as manifested in the key sections in our study. In addition, we find that the UK external auditors have also made significant changes in their respective reports in direct response to the SOA. And finally, we have found that even UK only listed companies, who are not obliged to comply with SOA, are also mimicking the reporting style of the SOA compliant companies. We are thus

seeing a homogenization of reporting practices among all UK listed companies. Mimetic isomorphism is leading to the lack of diversity in reporting among companies in the UK, which then could lead to what we call 'homogenous reporting pluralism'. This reporting pluralism appears to be becoming the norm and whether this will improve corporate governance and thus lead to less corporate collapses is too early to surmise in this study. However, DiMaggio and Powell (1983) cautioned that it is important to "discover new forms intersectoral coordination which will encourage diversification rather than hastening homogenization" (p.157). Isomorphism occurs because decision makers (those charged with governance of companies) are happy to adjust behaviour (Hannan and Freeman, 1977) to comply with the requirements of the SOA. Whether this is due in part to the punitive measures of the SOA or not, the fact remains that given we do not have such provisions in the UK corporate governance code and also the fact that there has not been any state or regulatory policy development requirement for radical changes in the corporate disclosures in the UK in the pre and post SOA period, we suggest that most of these changes in disclosures have been driven largely by the SOA. We posit that by examining the organisational fields for the presence of these forces and attempting to measure the extent of these forces in the pre and post SOA period in the lives of UK companies, both dual listed and UK only listed, one can understand the rationale for convergence on homogenised practices and institutional behaviours as a result the corporate changes brought about by the

Our study is consistent the study with Beatty, Fearnley and Hines (2012) who also find that post-SOX regulations have introduced additional dimensions to the factors influencing audit quality. To the extent that we find that management reporting and disclosures behaviours have changed for both UK SOA compliant and non-SOA

complaint alike in the post SOA period. It is also consistent with Posner, Mohliver and More (2018) who find that firm behaviour after Sarbanes–Oxley did change in ways that are congruent with the intent of the legislation: to increase executives' accountability for the reliability of their firms' financial statements. Stefanescu (2021) also finds that institutional isomorphism positively influenced comparability, consistency, accessibility and timeliness of non-financial disclosure

However, the study of Aksom and Tymchenko (2020) concludes that Institutional isomorphism theory only explains and predicts how even after radical changes organizational fields will move towards isomorphism, that is, institutional equilibrium and further question that the task is not to just explain agency and change but also to show that the change is natural and it is (was) inevitable processes that organizational field will return to isomorphic dynamics and move towards homogenization no matter how much radical change occurred in this field. Findings from our study differ from this view in the sense that the UK corporate governance had been in existence since 1992 providing guidance on financial reporting. However, prior to 2002 not much was taking place in financial reporting, until after the passage of SOA when we find changes in disclosure practices began to emerge in our study which we believe was as a result of the SOA. Institutional theory helps us to understand behavioural changes in corporations and their managements. That companies respond to coercive pressure is also borne out by the finding s of our study. Coercive isomorphism has also been evident in the way UK auditors responded UK's new extended audit report requirement.

This chapter has used institutional theory to explain the phenomenon of behavioural changes taking place in UK corporate reporting space. We have used Di Maggio's institutional theory to attempt to explain the rational for the findings. Di Maggio and

Powell (1983) argue that there are three main institutional pressures that can impact on organisations. These are coercive isomorphism, mimetic isomorphism and normative isomorphism as well as competitive (market) pressures. Whereas it is not always true to see all these at play, the authors of this study can, however, say that all the three including the market pressure have been observed. Coercive pressure has impacted management and auditors of UK SOA compliant companies, resulting in some necessary reporting changes for the affected companies to remain compliant with and maintain listing in the US. Coercive pressures have also played a part in the decisions of UK regulator to propose for the adoption of SOA-style UK corporate governance framework, bearing in mind that whereas the UK corporate governance code relies heavily on comply or explain, the US relies on comply or else. The pressure is being brought about, we believe, by the gradual improvement in the quality of financial reporting and audit report which began after 2002 culminating in the FRC, calling for extended audit reports away from the long tradition of boiler plate audit reports.

Normative and mimetic isomorphism occur as the key stakeholders seek to normalise UK corporate governance code and bring it in line with the compliance -based type regulation of the US SOA by copying parts of it and eventually framing a new corporate governance document along it. We believe this is not a knee-jerk decision: it must have been arrived at after a long period of studying the effect of the SOA in operation in UK and the US. Normative and mimetic isomorphism phenomenon can also be observed in the way UK companies not listed in the US, without any coercive pressures, have gradually embraced some of the new, longer disclosures practices being made by the UK SOA complaint counterparts. It appears therefore that a new standard of financial reporting and disclosures have taken hold in the UK after the

SOA and it is no wonder that the FRC, the Government and the accounting profession are all calling for a SOA style UK corporate governance framework which will have real teeth (powers) to enforce compliance. Di Maggio’s institutional isomorphism has greatly helped us to understand this trend of behavioural and institutional changes taking place in UK financial reporting environment.

CHAPTER EIGHT: CONCLUSION AND RECOMMENDATIONS

8.1 Introduction

The Sarbanes-Oxley, which was passed by the US Congress in direct response to the collapse of Enron had one key objective- to restore investors' confidence in the market. Containing 11 chapters, the key sections that have attracted the world attention are sections 302, 404 and 906. Section 302 requires the joint certification of the accounts by the CEO and CFO. Thus, the two are jointly held responsible for any misreporting. This is a corporate governance first. Secondly, section 404, which is arguable the most contested section, requires management to establish internal controls and procedures for financial reporting. They must document, test, and maintain those controls to ensure their effectiveness. Another new development in corporate governance is the requirement of Section 404b which requires the entity's external auditors to provide a written attestation of the presence and effectiveness of the internal controls. And then, we have the Section 906, which addresses criminal penalties for misleading certification or fraudulent financial reporting, stipulating penalties in excess of $5million in fines and 20 years in prison or both. The SOA was originally intended for American companies listed on the major exchanges. It soon became evident that foreign companies listed on US major exchanges were to be affected by these ACT and therefore compliance was expected. UK has the 2nd largest listing in the US after Canada, and more than any country in Europe. After initial reservations expressed by industry, political circles and the accounting profession in the UK concerning how complying with the SOA would make UK companies uncompetitive, since UK companies have complied with their own well-established corporate governance code, there were news of many companies threatening to delist from the US. Although few

companies delisted from the US market, we find that not only did most of the UK companies continued with their listing, but there was also evidence of new UK companies listing or seeking listing on the US markets after the passage of the Act. We have found that the SOA has helped improve the quality financial reporting in the areas of corporate governance narratives, audit committee disclosures, internal control disclosures and external auditors' reports.

8.2 Key Findings

The objective of this study is to examine the how the Sarbanes-Oxley Act 2002 of the US has influenced corporate reporting in the UK. We examined the following documents from companies that are and are not compliant with the SOA. The documents are: 1. Corporate Governance introduction section 2. Internal control disclosures, 3. Audit Committee reporting and disclosures and 4. The external auditors' reports. The key findings are as follows.

8.2.1 Quantity of Disclosure

Using content analysis methodology, this study finds that for both UK -SOA compliant and UK-Only listed companies, there was a gradual increase in the word count of the selected sections of the corporate governance section in the post SOA period than any time period before it. Increase in word count is likely to have been as a result of increase in more disclosure and therefore improvement in the transparency in reporting. The requirement for management certification and auditor attestation has also meant that, management would need more information disclosure control information before appending the certification required. The audit committee and internal control disclosures increased in the post SOA period for both UK SOA compliant and UK only listed companies. The SOA focus on internal control, which

requires management certification and their external auditor's attestation, has also meant that more attention is now given to the system of internal control are effective and fit for purpose. Consequently, it becomes necessary for management to disclose to shareholders all material issues that come to light as result of this scrutiny and bring this to the attention of their auditors who will then have to reflect ion these revelation in their report. The efforts to disclose more of the processes to shareholders becomes a way demonstrating transparency and accountability in governance.

Whereas we understand the compliance obligation on SOA compliant companies, however, we find the increase in disclosures in the UK-only listed as evidence of an unintended consequences of the SOA on non-affected companies. We also find that immediately after the passage of the SOA, the word count of our selected documents for UK SOA only listed companies also began to increase gradually and by the 2010 we see the effect of isomorphism as all companies now look the same in terms of disclosures. It becomes difficult to separate UK SOA compliant company from UK-only listed company except in the area of audit reports. Auditors of UK companies listed in the US began to present two sets of audit reports by the end of 2002: one for the US market and the other for the UK market. This dual audit reports, which as available in both the Form 20-F and UK standard Annual reports, enables shareholders and other users to understand the implication of their company listing in the US and how that benefits them as shareholders. The US comply or else corporate governance regime, whilst UK has 'comply or explain' regime, characterised by discretion and flexibility, a luxury the US SOA does not provide to management. The report intended for the US market will thus increase trust and confidence in the reporting.

8.2.2 Quality of Disclosure

High quality corporate reporting is necessary to facilitate the understanding of both financial and non-financial components of the management performance and perspectives. We examined the contents of the selected documents and find that the quality of disclosures of our selected documents improved in the in the post SOA period. We find that whereas in the pre-SOA most of the narratives were made in the passive voice and less use of personal pronouns, the same could not be said of the disclosures made in the post SOA period. We find that in the post SOA management of UK SOA compliant companies began to use more active voice, more personal pronouns as well as politeness words were used in the disclosures to address shareholders. Not only are the reports lengthy, but there is also evidence of management making the conscious efforts to engage with shareholder by mixing the use of such pronouns as I, you, we us in the reports. Loughran and McDonald (2019) find that the usage of pronouns in reports improves clarity (of communication), and their higher counts implies better readability (by shareholders) and can engage the reader in a material way (Loughran and McDonald, 2019) this finding is also supported by Assy, Libby and Rennekamp (2018a) who find that higher counts of personal pronouns increase reaction by investors (Assay Libby and Rennekamp (2018a). Almost every sentence begins with 'we' and has a clear reference to 'you' (shareholders) in the middle denoting a conscious dialogue with the intended users of the report. There are several instances where management actively invites shareholders to specific sections where certain information could be easily obtained by using phrases such as 'you can find…' as opposed to the passive voice – 'this can be obtained from…'.

While the audit committee did not issue a separate report in their disclosures before the SOA period, we have noticed that they have started providing one in the post-SOA

period. Additionally, they now use active voice and personal pronouns in their reports, which has also been adopted by non-compliant UK companies. This style of writing makes the text more engaging, easier to read, and shows a connection with the readers. Since financial reports are a means of communication from management to shareholders, using direct language can enhance readability and increase the chances of being positively received by shareholders.

In addition to use of personal pronouns, we also note the use of find the presence of words of endearment in the corporate governance disclosures. We find that management and Audit committee chairs addressed shareholders with such politeness as has never been seen in the corporate governance narrative in the period before the SOA. The management usage of phrases such as ‘dear shareholders’ ‘we are pleased’ etc. was very interesting but also a joy to see. Management is demonstrating humility as agents of shareholders while also showing that they identify with the shareholders and have their interest at heart. It shows they know who the readers are and are taking steps to let the reader know that they identify with the report. This pattern of communication can be contrasted with the pre-SOA period disclosures which were replete with passive voices and no usage of personal pronouns. The frequent use of ‘we’ and ‘I’ demonstrates that something must have triggered management to change their communication strategy and we believe that in the absence of any such regulation from the UK, it is the effect of the SOA which is driving these changes in behaviour. Even more interesting is the behaviour of UK only listed companies, who are not compliant with the SOA. These companies also began introducing these personal pronouns and politeness in their narratives voluntarily, thereby confirming the effect of mimetic isomorphism in corporate governance practices in the UK. Normative isomorphism can also explain this behaviour in the

sense that over time, we find this practice has become the norm, the standard and therefore creating homogeneity in disclosure practices in the UK. Best practice is often shared or copied by others. The SOA is impacting positively on UK financial reporting.

8.2.3 End of Boiler ‘plateism’

One of the key features of corporate governance disclosures in the pre-SOA period was boiler plateism. We find that the corporate governance section, the audit committee report, the internal control disclosures as well as the audit reports were like each other year after year. Each document looks and read the same apart from the dates, which changes each year. The question we ask is, how can management be repeating the same information year after year when events occurring in two years are not the same? Each repeated year after year with little or no changes in presentation, choice of words or word count. This was the case for all both sets of our sample, indicating that it was an accepted practice. However, from 2002 upwards, we begin to see an abatement of similarity between different years and sets of our sample. The end of boilerplate reports is a victory for shareholders, because it enables them to appreciate the fact that no two years are the same and therefore, it is important that management report s reflected this reality. By 2010, barely 5 years after the passage of the SOA, the practice of boiler-plateism had diminished from the corporate governance sections of UK companies. We argue that this change in reporting practice has been driven by the SOA. Even for SOA non-compliant companies, we find that this wind of change was affecting them as they all began to end the use of boilerplate disclosures and reports, voluntarily. The audit committee report, internal control report and external auditors’ reports now look and read much better than the period before SOA. The descriptive nature of these narratives and reports have ceased in the post SOA period. The corporate governance introduction sections, the audit committee

reports, the internal control reports and external audit reports now look different from one year to another in terms of content and presentation, which means that shareholders can hold management to account specifically on what has been said about a particular year as opposed to the previous cut and paste mode of reporting where management simply described what ought to have taken place, no what took place. We believe that the sweeping corporate governance reforms in the SOA has a major role to play in these new positive corporate governance developments.

8.2.4 Independent audit committee members and Independent Auditors

Independence of audit committee is central to corporate governance. Audit committees play crucial role in every publicly listed company corporate governance. Auditors play an important monitoring role in the agency theory and therefore audit quality contributes to the overall quality of financial reporting (Blanchet, 2000). This study has found that audit reports and disclosure have improved significantly in THE UK during the post SOA than the period before it. We find that audit quality and audit committee disclosure quality have improved in the post SOA period than the period before it. This view supported by Beatty, Fearnley and Hines (2012) who also find that post-SOX regulations have introduced additional dimensions to the factors influencing audit quality. We find that prior to the SOA, the committee was merely playing the role of ‘assisting’ management in managing the controls in both SOA compliant and UK-only listed companies. However, in the post SOA era, we find a change in each company’s governance policy over the committee. Each AC is now given the freedom and the latitude to design its work schedule and procedures, underscoring how truly independent they have become under SOA. The membership of audit committee is now comprised of and described as ‘independent non-executive directors. This is the case for both SOA compliant and non-compliant UK companies. Prior to the SOA, the

word ‘independence’ was not used to qualify the NED’s. Independence is an essential ingredient to the quality of financial disclosures and that independent directors help to improve the quality of financial disclosure and thus increase transparency and trust in financial reporting (Agyei-Mensah, 2016). External auditors must not only be independent, but they must also appear to be independent. In the post SOA we find evidence that the requirement of Section 404b which calls for auditors’ attestation of internal controls have led to more diligence on the part of external auditors, as evidenced by the longer audit reports in the post SOA, a practice which has almost become a norm among UK auditors. The quality of audit committee is underscored by the increase in the number of meeting times in the post SOA period for both UK and SOA compliant and non-compliant companies. More meeting times meant AC members spent more time on their role than before. Further the practice of including a financial expert in the membership, a SOA requirement has become a common practice for all UK listed companies. The length of the audit committee report has improved significantly to include details of key work undertaken within a year and pointing shareholders attention to where they (AC) allocated more time. Similarly, we find that external auditors are disclosing more now than pre-SOA period and we believe has been instrumental for the FRC to require long or extended audit report by all listed companies by 2023. Overall, we find that the quality and quantity of both independent audit committee and external auditors’ reports have improved significantly in the UK after SOA.

8.3 UK Regulators and Market perception of SOA

In 2013, the FRC launched the extended of the audit reports in the UK, which we believe has been influenced by developments of the SOA. Generally, there has been a rather positive news from the industry, market and the regulators concerning the SOA in the UK. Notably among these includes Sir Jon Thompson, the Chair of Financial Reporting Council, UK, who is of the opinion that a new SOA style corporate governance regime for the UK would 'raise governance standards and improve risk and financial management, accounting and accountability in the UK', adding that 'we are in favour' of a version of Sarbanes-Oxley because there is a case for such a consideration in the UK. In addition, the ICAEW (2019) writing on the positive impact of the SOA on UK financial reporting, said that "10 years ago, suggestions that UK companies and external auditors might report SOX-style on the effectiveness of ICFR were not taken seriously and concludes that "attitudes have changed" (ICAEW, 2019). Similarly, from the Financial Times perspective, Sutton (2019) writes that tackling UK auditing and accountancy failings requires legislative change and suggested the FT should push for SOA -style reforms to UK corporate law (Sutton, 2019).

At the invitation by the UK Government, Sir Donald Brydon was asked to how the audit process and product could be developed to better serve the needs of users and the wider public interest. Among the 64 recommendations included the establishment of a new corporate auditing profession and the effectiveness of companies' internal controls over financial reporting. The Review noted that even though the US SOA was an arduous process to follow, it did provide compliant companies with an opportunity to redesign their control frameworks for the better.

The Centre for Audit Quality (CAD) survey in 2017 of 105 CFOs of US publicly traded companies finds that 79% of chief financial officers (CFOs) feel that the overall quality of information in audited financial statements has improved since the enactment of

SOX. Some of those benefits listed include clearer financial reporting, an early warning for fraud, and early sight of issues across the business and better controls allowing management a better grip of the business.

Commenting on the strength of the SOA CEO/CFO joint certification, Osama Rabbani of KMPG in an online article described the SOX requirement of CEO and CFO certification as one of the far-reaching proposals designed to hold companies' directors personally responsible for having a robust control environment over the company's financial statements, concluding that getting the internal control right is imperative and that company directors must act now. Sarah Ward of KPMG writes that although most of the tenets of US SOA internal controls regime ('COSO 13') are already in place in the UK corporate Governance Framework – what we often hear from US Securities Exchanges Commission (SEC) concerning UK companies that seek listing in the U.S. is that the Boards are surprised to learn that controls aren't being executed to the right standards. The UK Corporate Governance Code requires the Board form a view on Internal Controls based on reporting from management and the Senior Manager's regime in financial services requires an accountability framework.

The need to maintain legitimacy with the market and the UK policy makers' readiness to introduce SOA reforms in the UK have played a major part in explaining the normative isomorphic changes behaviours of UK auditors in the post SOA period. From these, we can infer that these normative isomorphic pressures are being brought to bear on the accounting profession to ensure that it will not lose its self-regulatory privileges in the UK, at least.

Taken together, evidence from this study and comments from the industry, the regulators and the markets, support the claim being made in this study that the SOA has improved or is helping to improve the UK corporate reporting since its implementation as evidenced from both SOA complaint and non-compliant companies reporting practices, and that there is ample evidence to suggest that the UK is at the cusp of embracing the key provisions of the SOA.

8.4 Contribution

It has been nearly 20 years since the SOA was passed in the US. Since then, there has been many developments in financial reporting and disclosures in the UK. Most of the extant literature on the SOA have focused on the North American markets with data drawn from the USA. The UK has the second largest listing in the US after Canada, but we find that the academic literature does not have many studies focused on how the SOA has been impacting on the UK financial reporting. Our study attempt to fill this gap and to contribute to the academic debate and policy development in the following ways.

1. The UK has a principles-based corporate governance regime, which is characterised by flexibility and management discretion regarding what and how to make certain corporate governance disclosures. Such a privilege does not come with the compliance with SOA, which has a 'comply or else' cloud with penalties of fines or imprisonment or both hanging over it. This threat will concentrate on the minds of management of UK SOA compliant companies when making disclosures to the market. A hybrid form of compliance-principles- based corporate governance system is suggested implied by the findings of this study.

2. Our study attempts to see the extent to which the SOA effect has spilled over onto the non-compliant companies. There is an ongoing discussion about UK adopting SOA-style governance regime given the evidence of quality of financial disclosures in the post SOA period. We contribute to this debate and discussion as our results confirm and corroborate the general mood of the market, regulators and industry. Our study is probably one of the few key studies that have specifically examined the issue of corporate reporting content and disclosures quality in the UK since the passage of SOA through the lens of institutional theory.

This qualitative study will be on interest of policymakers as it is happening now. We have not located any qualitative study that has focused on the areas we have highlighted in our study. We believe that the annual report is a communication document and therefore the way disclosures are made therein contributes enormously to the understandability by shareholders. These qualitative factors can easily be ignored and taken for granted, but they are key in information dissemination. Our findings will help inform policy formulation on the subject matter.

BDO (2021) reports that 80% of CFOs of US listed companies agree that SOA has led to an improvement in the quality of information in audited financial statement. Our study contributes to this discussion in the UK financial reporting context. Consistent with our finding that SOA has improved the quality of corporate governance reporting and disclosures in the UK, the government after consultation has published a UK Sox, which will move the UK corporate governance close to the US SOA. Given the improvement in management and auditors disclosures especially over internal control over financial reporting and external audit reports, it is unsurprising that the new UK Sox will require for public disclosure of Directors Responsibility statement on the

effectiveness of internal controls (like SOA section 302 and 404) for the financial year ending 2023 and thereafter.

3. The study makes theoretical contribution to the institutional theory. Whereas institutional theory helps us understand the dynamics of structure and agency in organisation, from this study, what is becoming evident is that institutional theory can be used to explain how sovereign countries systems can behave in the light of market pressures as a result of laws from another country. That for UK as a sovereign nation, with a well-established principles-based system of corporate governance, variously known as ‘comply or explain‘ which has become the basis of many of countries corporate governance system, to finally come round to moving towards the US compulsory or rules based system is very interesting to observe. Whereas one cannot make the claim for coercive isomorphic pressures driving this change, it would be fair to argue, even with a slight hesitation, that some form of normative or mimetic isomorphic pressures have played some part in this drive. Whereas survival and legitimacy can explain companies seeking to adopt the SOA style disclosures, the same cannot be said of what is happening in the UK. In the end, what is clear is that the UK has seen that the SOA has really worked and leaders have been persuaded or being persuaded to adopt what has been described as ‘UK Sox’. Some form of mimetic isomorphic pressure can explain why the sudden change of direction form principles-based to rule based style form of corporate governance system as proposed. Many facets of this development is quite interesting. For example, the adoption of the nomenclature for the new UK corporate governance framework (UKSox), is profound. First the use of ‘Sox’ is indicative, if not acquiescence or tacit admission of the effectiveness of the SOA in corporate governance. Secondly, the proposal to replace the Financial Reporting Council (FRC) with a body called Auditing,

Reporting and Governance Authority (ARGA), which will act as the lead body for local authority and health audit, audit market regulation and corporate governance regulatory enforcements, is a measure by which the SOA has influenced, not just companies, but also the UK. And third, the Table of Contents of the new UKSox almost mirrors the TOC of SOA (see appendix 4). The SOA has eleven chapters and so is the new UKSox. The creation of Public Company Accounting Oversight Board (PCAOB) plays significant role in SOA and so is the ARGA also prominent in the new UKSox. We explain this as manifestations of mimetic isomorphism. That UK corporate governance system, the harbinger of best principles based corporate governance system to be moving towards a rule-based approach or at least attempting to copy rule-based practices is something very new to behold. This measure of influence is something new of institutional theory which we have not come across in research. Institutional isomorphism indeed transcends institutions. Mimetic isomorphism can not only take place among institutions, it can also take place between nations. Nations can also be impacted by it. This is a major theoretical contribution of this study.

4. This study also make contribution to public policy. Noting that the SOA required compulsory compliance, we have used the institutional theory of isomorphism to explain the behaviour of complaint companies and their executives as well as their auditors to adopt a new form of attitude of disclosing better quality disclosures to shareholders. We have found the use of better communication strategies, better choice of words, more focus on risks and the use of polite language in their corporate reports. Consistent with our findings, the UK Government has announced plans to replace the FRC with a new body, one that will have power to enforce compliance with the new UK Sox like the PCAOB. This new body is called the Audit, Reporting and Governance Authority (ARGA). This is a bold attempt by the UK government to move

away from or better still, introduce compliance element of corporate governance into the principles-based corporate governance. Our findings suggest that from the period after the passage of the SOA, UK companies began to introduce some subtle improvements in their corporate disclosures. By these, this study relevant contribution to policy making by being one of the few, if not the only such study which has used information from UK setting to discuss the effects of SOA on UK corporate reporting.

5. We contribute to academic research in corporate governance. Specifically, we contribute to the ongoing discussion how the SOA has impacted on UK companies using interpretive approach in a qualitative study. By 2023, the first UK financial accounts under UK Sox would be published. Future debate will consider whether the UK is adopting compliance based corporate governance system as US or maintain the principles-based system but integrating an element of compliance to produce a hybrid corporate governance regime. With the replacement of FRC with ARGA, a new chapter had been opened in UK corporate governance, and this study will be among the first few to contribute to such academic and policy discussions.

8.5 Limitations of Study and direction of future research

Institutional theory helps us to understand isomorphic changes in organizational field. It enables us to appreciate how people, groups and organisations behave certain in situations. We used the three isomorphism concepts of coercive, mimetic, and normative to help us understand the behavioural and institutional changes in financial reporting disclosure practices in the post SOA era in the UK. We find that when actors are exposed to institutional pressures, coming as it were from either formal or informal institutions, accompanied by respective incentive/punishment structures, change in behaviour results. Isomorphic pressures can then create a norm or social order. Meyer and Scott (1991) opine that accounting systems or standards usually emerge

in response to isomorphism to the institutional environment. Our exploratory study has demonstrated that a support for Meyer and Scotts (1991) in the sense that by 2010, key corporate governance disclosures in the UK have become similar among companies, regardless of whether US listed or UK-only listed. A new norm or new social order of disclosure has almost crystalised after the passage of the SOA.

However, to understand the theory fully, longitudinal research is required in order to appreciate the dynamic nature of isomorphic changes required (Slack and Hinnings, 1993). This exploratory study used limited number of companies and limited period of years. Future study which can make use of much larger sample and incorporating both textual analyses and interview techniques would be able to provide a much insight into the true impact of the SOA and to test the occurrence or non-occurrence of future corporate collapses which would help to conclude whether the effect of the SOA has endured in the UK and whether the quality of changes by way improved quality and quantity of corporate governance section of financial reporting would be permanent or not.

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Appendix 1

SEC Filing Disclosures Obligation for Domestic and Foreign companies Forms 10 -k and Form 20-F

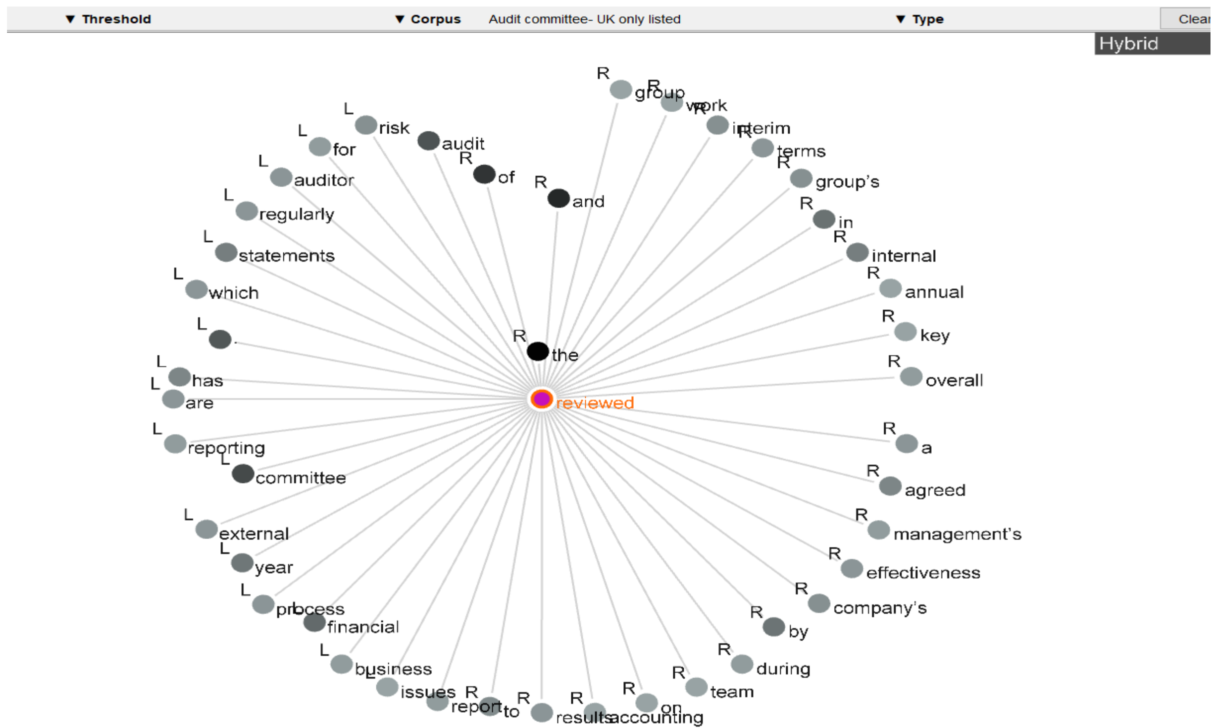
Obligation	U S Domestic issuer	Foreign Private Issuer (FPI)	
Exchange Act Registration Forms (required when listing in the United States)	Form 10, which requires SEC-specified disclosure regarding a U.S. domestic issuer and is subject to SEC review.	Form 20-F, which requires SEC-specified disclosure regarding the FPI and is subject to SEC review.	
Exchange Act Reporting Forms (required when registering a class of securities under the Exchange Act or offers and sales of securities under a Securities Act registration statement)	Form 10-K for annual information required by the SEC, including annual audited financial statements. Form 10-Q for interim period financial and other information. Form 8-K for disclosure of specified material events.	Form 20-F for annual information, including annual audited financial statements. Form 6-K for all other material information disclosed by the FPI according to home-country or stock exchange requirements.	
Securities Act Registration Forms (required when registering the offer and sale of securities in the United States)	Form S-1, which is the registration statement available for initial public offerings by U.S. domestic issuers and when such issuers are not eligible to use other forms. Form S-1 includes the most extensive disclosure requirements, which specify the material	Form F-1, which requires a long form prospectus that includes SEC-prescribed material information about the FPI. While the disclosure required by Form F-1 is in accordance with U.S. disclosure standards, the disclosure requirements are somewhat less	

	information that must be included in the prospectus that is part of the registration statement. Form S-1 also requires disclosure of other specified information and exhibits.	demanding than what would be required by Form S-1. Among other things, Form F-1 contains fewer specific requirements about the description of business, and permits disclosure of executive compensation in the aggregate, unless otherwise disclosed on an individual basis	
Annual Reporting	Form 10-K prescribes specific disclosures and must be filed within 60-90 days after fiscal year end depending on accelerated filer status of registrant.	Form 20-F prescribes specific disclosures and must be filed within 4 months after fiscal year end.	
Quarterly Reporting	Must file quarterly reports on Form 10-Q	. Not applicable.	
Periodic Reporting.	Must file Form 8-K generally within 4 business days of event to be reported. Prescribes specific disclosures to be made.	Form 6-K to be furnished promptly, after information is made public in-home jurisdiction. No prescribed specific disclosures	
U.S. Reconciliation of Financial Statements	Financial statements typically prepared in accordance with U.S. GAAP.	Must reconcile to U.S. GAAP, unless financial statements are prepared in GAAP accordance with IFRS as published by IASB.	
SEC Industry Guides	Applicable.	Applicable, to the extent requested information is available.	
U.S. Trust Indenture Act ("TIA") Provisions for Companies Offering Debt Securities in U.S.	Applicable. Trust indenture must comply with substantive provisions of TIA, including appointment of U.S. trustee.	Applicable, subject to certain exemptions (e.g., Rule 802 under Securities Act exempts securities issued in exchange offers for FPIs' securities from the qualification requirements of TIA, if U.S. holders hold 10% or less of the class of securities)	
National Securities Exchange Requirements on Corporate Governance.	Must comply with corporate governance requirements set by NYSE, NASDAQ or applicable securities exchange where company is listed.	Can generally follow specified home country practices on corporate governance, provided disclosure is made of how these differ from requirements of the relevant exchange.	

Disclosure of Differences between FPI's Corporate Governance Home Country – Practice and Exchange Requirements	Not applicable.	Disclosure required to be made in Form 20-F.	
Sarbanes-Oxley 302.	Certification Requires CEOs and CFOs to certify in their annual and quarterly reports, under sanction of civil and criminal penalties regarding, among other things, material disclosures, fair presentation of financial statements and other financial information and the adequacy of internal financial controls	Applicable to Annual Reports. Required by Form 20-F. Not applicable to Form 6-Ks	
Sarbanes-Oxley 906 Certification	Requires CEO and CFO certifications that Company's periodic reports containing financial statements fully comply with Section 13(1) or 15(d) of Exchange Act and information in report fairly presents, in all material respects, the financial condition and results of operations of the Company.	Applicable to Annual Reports. Required by Form 20-F. Not applicable to Form 6-Ks	
Sarbanes-Oxley 404 Report on Internal Controls and Procedures, and Auditor Attestation	Requires public companies' annual reports to include the Company's own assessment of internal control over financial reporting, and an auditor's attestation as to effectiveness of internal control over financial reporting.	Applicable. Required by Form 20-F	

Appendix 2

Collocation of the Word 'Reviewed



Appendix 3

Collocation of the Word ‘Risk’

▼ **Threshold** ▼ **Corpus** Audit committee- UK only listed ▼ **Type**

Appendix 4

Comparison of SOA table of contents with UKSox table of contents