



School of Economics
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The New Auditing Standard in Sweden

*What are the effects of a more detailed
auditing standard?*

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Abstract

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Title: The New Auditing Standard in Sweden – What are the effects of a more detailed auditing standard?

Background and problem: During the last couple of years there have been a great number of accounting scandals throughout the world. The line of auditing is by this time going through extensive changes when the rules are changed nationally and internationally. As an adaptation of Swedish accounting and auditing into international standards, a New Auditing Standard in Sweden that compensates for the former Auditing Process has been appointed. The main problem of this thesis is: what are the effects of a more detailed auditing standard?

Purpose: The purpose of this thesis is to investigate the effects of the more detailed New Auditing Standard in Sweden. The authors will investigate how it has affected the responsibility of the auditor and if the quality of the auditing has improved since the New Auditing Standard was introduced.

Delimitations: The authors can not investigate every aspect of audit regulation and have therefore decided to concentrate more on the aspect of the auditor, and less on the aspect of the companies of which the audit is made. The authors have chosen to delimitate the thesis to the 200 series of the New Auditing Standard.

Methodology: This thesis is based on the qualitative approach. The empirical material has been collected through qualitative interviews.

Results and conclusion: The effects for large and small companies are different. Cooperation is the key to an audit of high quality. Regulation is only one of the tools in the procedure, the auditor's choices are influenced by a lot of factors in the surroundings. A more detailed regulation leaves the auditors with a narrower scope to make judgments on their own. Since all companies are different there is no template to follow while conducting the audit, therefore the audit has to be adapted to each company.

Suggestions for further research: It would be interesting to investigate what effects the New Auditing Standard has had from the companies' point of view. In addition, it would be of great interest to investigate further if the requirement for an audit should be kept or not for small companies. Additionally; an investigation of possible scenarios in the future would be of significant interest.



Preface and Acknowledgement

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1. Introduction

The authors will in this chapter briefly discuss the background and the underlying problem formulation of this thesis. The authors will also appoint the purpose and clarify possible delimitations. A disposition of the thesis will also be given.

1.1 Background

During the last couple of years there has been a great number of accounting scandals throughout the world. The most recent cases that have been revealed are, among others; Enron, WorldCom, Royal Ahold and Parmalat. These scandals have seriously damaged the confidence in financial reports. In the US preventive measures have been taken through the Sarbanes-Oxley Act of 2002 (SOX). In the EU, there has also been a great investigation of which the purpose is to strengthen the confidence within this field. Many of the measures that have been taken, in order to strengthen the confidence in financial reports, have a connection to the independent auditor's alignment and extent as well as the independence and the integrity of the auditor (www.regeringen.se, 050410).

The main figures of the capital market, from stockholders to politicians, are seeing their interests being threatened. Suddenly the whole line of auditing is put up to discussion. How could a company like Enron collapse without anyone noticing it? Why are the financial reports so difficult to understand? The line of auditing assumes the responsibility for how the auditing standards that the financial reports are based on are being elaborated, and how they are being interpreted (Veckans affärer, 020521).

The Swedish auditing regulation consists of legislation and complement normative. The overall auditing purpose can be described as an enhancement of the credibility in the information that a company presents in its public accounting. To be able to achieve its' purpose the auditor has to inspect the company with carefulness and to an extent that essential errors and lacks in the economic administration and accounting can be discovered (www.regeringen.se, 050410).

People usually talk about a gap of expectation of what the auditor actually does, has the possibility to discover and comment, and what the users of the annual report expect. The gap of expectation is significant in two areas; the scope of auditing concerning businesslike decisions and the discovery of irregularities. The dimension of the gap can probably be explained by ignorance of the meaning of auditing, as well as the difficulty explaining what the auditing actually consists of in these areas (www.regeringen.se, 050410).

1.2 Problem Discussion

The line of auditing is by this time going through extensive changes when the rules are changed nationally and internationally. FAR has recently published a New Standard of Auditing in Sweden¹, which is adjusted to international standards. RS was put into practice for financial years that started 1st of January 2004 or later. RS, in comparison to the former standard, contains a more detailed description of the professional ethics for

¹ Will also be referred to as RS



accountants. It has been adjusted to the new requirements and conditions and therefore fulfills the superior expectations of auditing (www.far.se, 050415).

The commission of trust, under the guidance of the former Minister of Finance Erik Åsbrink, has presented a number of propositions concerning corporate governance that will affect the role of the auditor. The proposal of a new modernized eighth company directive about auditing from the EU commission will most likely affect the line of business. The commission of trust intends to explain and clarify the role and the division of responsibility between the different institutions of the company (owners, board of directors, management and auditor). FAR therefore wishes that the proposal is followed through and that the board of directors and the managing director through a specific affirmation in the annual report confirm their responsibility for the accounting and presentation in the annual report. It is the board of directors and the managing director that will be held responsible for the accounting of a company and that emit the information in the annual report. The auditor's responsibility lies in answering for the auditing and thereby secures the quality of the information. Many people confuse the responsibility of accounting with the responsibility of auditing (www.far.se, 050415).

1.3 Problem Formulation

As an adaptation of Swedish accounting and auditing into international standards, a New Auditing Standard in Sweden that compensates for the former Auditing Process² has been appointed. RS is founded on ISA³ and has a different structure and is more precise concerning the auditor's way of inspection, reporting and documentation. RP and RS both explain *that* an auditor shall take measure, meanwhile RS describes more thorough *how* the auditor will proceed with these measures (Collin & Tagesson, 2003). The authors intend to investigate what effects a more detailed Auditing Standard has led to and how it has affected the responsibility of the auditor and furthermore if this has led to a higher quality of the auditing and the financial reports. The main question of this thesis is:

What are the effects of a more detailed Auditing Standard?

In order to answer this question the authors have chosen to divide the main question into sub questions.

- Which are the most important differences between the New Auditing Standard in Sweden 2004 and the former Auditing Process, 200 series?
- Has the responsibility of the auditor changed?
- Is the New Auditing Standard fulfilling its purposes? (quality and trust)
- Has the role of the auditor changed?
- Which factors are influencing the choice of making a remark or not? How does the New Auditing Standard affect it?

² Will also be referred to as RP (Revisions Processen)

³ International Standards of Auditing



1.4 Purpose

The purpose of this thesis is to investigate the effects of the New Auditing Standard in Sweden, introduced in 2004, concerning the 200 series. The authors will investigate the change of the former to the present regulation in Sweden, how a more detailed regulation has affected the responsibility of the auditor and if the quality of the auditing has improved since the New Auditing Standard was introduced.

1.5 Delimitations

The authors can not investigate every aspect of audit regulation in Sweden and have therefore decided to concentrate more on the aspect of the auditor, and less on the aspect of the companies of which the audit is made. The authors have chosen to delimitate the thesis to the 200 series that concerns the assignment and the responsibility of the auditor, which is what the thesis will mainly focus on. The authors have also chosen to interview 5 auditors about what they consider are important changes and used their perspective of the New Auditing Standard. The authors assume that the readers of this thesis have a basic knowledge of Business Administration and have therefore used a terminology suitable for the subject.

1.6 Disposition

The authors have chosen to divide this thesis into eight chapters.

Chapter 2, *Methodology*, explains different choices of methodology that has been made in this thesis. This chapter also explains the practical course of action at the composition of the thesis.

Chapter 3, *the Role of the Auditor*, presents the role of the auditor and the process of auditing. This chapter will serve as an introduction to auditing in order to give the reader a deeper understanding for the subject.

Chapter 4, *Framework*, presents the Agency Theory and a comparison between the New Auditing Standard and RP.

Chapter 5, *Empirical Research*, is based on the answers from the interviews.

Chapter 6, *Analysis*, will relate the empirical research to the theoretical framework of this thesis.

Chapter 7, *Conclusion*, will present the conclusions drawn from the analysis. The authors' suggestions for further research are also included.

Chapter 8, *List of References*, will present the literature and sources consulted for this thesis.



2. Methodology

The authors will in this chapter present different kinds of methodology that can be used in a thesis. The chosen methodology for this particular thesis will be presented and motivated.

2.1 Research Approach

Depending on the characteristic of the subject it can be classified into different research approaches (Patel & Davidson, 2003). The explorative approach is used when there is a lack of knowledge of the subject. The purpose of this approach is to gather as much information about the subject as possible. The information will be the basis of further research on the subject. While using an explorative approach, researchers often use several different methods of gathering information (Patel & Davidson, 2003). Another approach is the descriptive. This approach is used when there already is a certain amount of knowledge on the subject. A descriptive approach is used to describe a limited aspect of a phenomenon. Often, only one method is used when gathering information (Patel & Davidson, 2003).

In this thesis the authors have used both a descriptive and an explorative approach. The descriptive approach has been used to describe the role of the auditor and the conflicts that lies within the profession. The authors also describe the differences between the Auditing Process and the New Auditing Standard. This information is forming the base for further analysis. To find out how the new regulation has affected the auditor and the process of auditing the authors have used an explorative approach. The empirical research focuses on what effects the New Auditing Standard has led to in practice.

2.2 Research Method

There are two different research methods; the qualitative and the quantitative. A quantitative research uses statistical processing and analyzing methods in the collection of data. This method is used when questions like; Where? What differences are there? Which relations are there? need to be answered (Patel & Davidson, 2003).

Qualitative research uses verbal analyzing methods. This is used when you need to interpret human experiences or answer questions like: What is this? What are the underlying patterns? (Patel & Davidson, 2003). The purpose of the qualitative research method is to understand, not to be able to draw general conclusions (Holme & Solvang, 1997). Interviews are frequently used to gather information in a qualitative research (Patel & Davidson, 2003).

In this thesis the authors have used a qualitative method. The purpose is to find out what effects the New Auditing Standard has led to. The qualitative research consists of an interview guide that has been applied on a limited number of auditors. The authors have chosen a qualitative method in order to get a deeper understanding of the underlying patterns and the consequences of the new standard. The purpose is not to draw general conclusions by numerical answers as in the case of a quantitative approach.



2.3 Data Collection

The data that has been collected can be divided into two groups; primary data and secondary data. Primary data is the data the author has collected for a certain purpose. Three examples of ways of collecting primary data are; interview, questionnaire and observation. Secondary data is data that has been collected by someone else for another purpose (Patel & Davidson, 2003).

The authors have in this thesis used secondary data to describe the role of the auditor, the legislation and the normative. Primary data have been used in the empirical part of the thesis. Interviews with auditors have been carried out to get a picture of the auditors' opinion on the New Auditing Standard and how it has affected their work.

2.4 Interview

Preparing the questions for an interview requires that you choose the structure and what rate of standardization the questions should have. The rate of standardization depends on to what extent the questions and the interview situation is the same for all interviewees (Trost, 2005). If you want to be able to be flexible during the interview and pose the questions in the order that best suits the interviewee, an interview form with a low rate of standardization will be used. If you pose exactly the same questions, in exactly the same order, to each interviewee the interview form has a high rate of standardization. Interviews with a high rate of standardization are often used when there is a need for generalization and comparable information (Patel & Davidson, 2003).

The rate of structure depends on how freely the interviewee can answer the questions. In a highly structured interview the interviewee is limited to answer the question in certain ways, for example to choose between a number of given options. A low structured interview leaves the interviewee with much more room to answer the questions more freely, for example by posing questions like: What is your opinion on...? The interview can be used for different purposes depending on how the questions are formulated (Patel & Davidson, 2003).

The authors have used interviews with a high rate of standardization. To be able to compare the answers, the questions were posed in a similar order in all interviews. The interviewee has been given a big scope to answer the questions. The interviewees had the opportunity to express themselves freely and therefore the level of structure chosen is low.

2.4.1 Interviewees

The authors have chosen to interview five authorized auditors from accounting-firms of different sizes. The auditors have different experiences since they have audited smaller companies, larger companies or both. The auditors have an experience of working with RP as well as the New Auditing Standard. The authors have also chosen to interview both male and female auditors. The interviewees are anonymous and will be named auditor Andersson, Börjeson, Carlsson, Davidsson and Eriksson and the authors have also chosen not to mention at which firm they work. This is because some of the information can be sensitive and the authors want the interviewee to be able to answer freely from their personal point of view. The interviewees have been chosen due to their



differences in order for us to get wider view of the subject and to be able to make a proper analysis.

2.5 Implementation

The interviewees were contacted by phone or e-mail. All of the auditors contacted were willing to contribute with an interview. A date was set for the interview, and a few days before this date, the interviewee was sent an e-mail with the interview guide attached, so that necessary preparations could be made. The interviews were held in Swedish, as it is the mother tongue of both the interviewees and the interviewers. One of the authors posed the questions and the other one took notes. The interviews were recorded and the tapes were used as help when the answers were compiled. The interview guide and all the answers were translated into English after the interview session. No quotations were used in the presentation of the answers in order to minimize the risks of misinterpretations. There is also a risk of losing some of the meaning, which is strongly connected to the language when trying to translate the exact wording in the interviewees' answers. Therefore the authors have chosen to compile the material in a way that expresses the answers most correctly. The authors have chosen not to transcribe the interviews as a cause of the matter of time and also because of the difficulty to transcribe and then translate the interviews word for word. When this thesis is completed the tapes from the interviews will be destroyed in order to assure the anonymity of the interviewees.

2.6 Validity

Validity can be divided into internal and external validity. Internal validity implies that the interview actually measures what it is intended to measure. External validity depends on the responses from the interviewees and to what extent they might be distorted or dishonest (Lundahl & Skärvald, 1999). When using the qualitative approach the goal is to understand how the interviewee is experiencing a phenomenon (Trost, 2005). The problem with validity is usually greater for quantitative studies. In qualitative studies the researcher has a closer relation to the person studied (Holme & Solvang, 1997).

The internal validity of this thesis is considered high since the method used is interviews that have been conducted in person. This gives a close relation to the interviewee, which improves the internal validity. If the method did not measure what was intended to, it would have been discovered when the first interview was executed. As the interviews were held in person there was a possibility for the interviewee to get the question rephrased or explained. The external validity depends on the answers given and how they are interpreted. To improve the external validity the authors have chosen to record the interviews in order to avoid misinterpretations of the answers. A summary translated into English was e-mailed to the interviewees to assure that the answers have not been misunderstood. The interviewees were informed before the interview that they would be anonymous in the thesis. This should facilitate for the interviewees to respond more freely and from a more personal point of view, rather than from the view of the accounting-firm they represent.



2.7 Reliability

Reliability is the accuracy of the measured results and to what extent they can be replicated (Backman, 1998). When interviews are being used, the reliability strongly depends on the ability of the interviewer to interpret the answers. Recording the interview can be a helpful mean, as the tape can be used to refresh the memory and facilitate a more correct interpretation (Patel & Davidson, 2003).

The extent to which the research can be replicated is not a central issue when using the qualitative method. Since human behavior is constantly changing it is impossible to create exactly the same conditions for every interview. The interpretation is influenced by the authors' frames of reference and if another person would redo this research his/her conclusions would be different because of their frames of references. To improve the reliability of the thesis the authors have tried to make the interviews as similar as possible without restraining the interviewees. The authors started the interview by informing the interviewees of that they will be anonymous and then posed the questions in a similar order in all interviews. The authors have chosen to record the interviews and also to conduct the interview together. The recording made it possible to return to the answers several times and make sure that the answers were correctly understood. The answers were translated into English, which could deteriorate the reliability. However the interviewees got an opportunity to read their answers after the translation and approved to their correctness.

2.8 Criticism of the Sources

The authors believe that it is important to be critical towards the sources used when writing a thesis. The reliability of the thesis strongly depends on the information gathered, the primary as well as the secondary information. The primary data of this thesis were gathered through interviews. When performing a qualitative research there is always a risk of subjectivity. The interpretation of the answers from the interviews could be reflecting the opinion of the authors. To avoid confusion in that matter the authors have chosen to present the results from the interviews and the authors' conclusions and opinions clearly and separately. There is also a risk of the interviewees not answering the questions honestly since they are representing an organization and are responsible for the information they give. The authors have therefore chosen to let the interviewees be anonymous, so that the answers will be as close to the truth as possible.

The secondary data used in the thesis can be divided into different groups; methodology literature, literature about the auditor's role, legislation, normative standards and information describing the current debate. Several methodology books have been used in order to get a wide picture of the different methodology options. Literature about the auditor's role has been used for the framework. The concepts about the auditor's competence, independence and professional secrecy are all established concepts that can not be seen as controversial in any way. If the literature is current or not is not crucial since the concepts are established, even though there are a continuous debate. The legislation and normative are collected from FAR Samlingsvolym and FARs Revisionsbok, which should be considered the best source for this information. The information found on the Internet is from well-known organizations and authorities. The information is very current which is important since it is describing the debate about the New Auditing Standard.



3. The Role of the Auditor

The authors will in this chapter briefly describe the role of the auditor and the process of auditing. The mayor keystones will be presented and explained. This chapter is meant to serve as an introduction to the subject of auditing and give a basic understanding of the empirical material.

The auditor should make sure that the economic information about the company given to the interested parties is true and fair. This is made by critically auditing, evaluating and by making a statement about the companies' administration and accounting. It is crucial for a well functioning economy and society that the interested parties can trust the information given by the company (FAR, 2001).

3.1 The Process of Auditing

The process of auditing can be divided into three steps. The authors will give a brief description of each step.

3.1.1 Planning

When the auditor is planning the audit he/she decides which areas that need to be audited and how. To be able to accomplish an appropriate planning of the audit, the auditor needs to have a good knowledge of the company. Therefore the auditing starts with collecting information about the company. By knowing the company and its line of business the auditor can plan the audit so that it will be concentrated on the areas which have the largest risk for essential faults (FAR Revisionsbok 2004).

3.1.2 Audit

An experienced auditor compiles an auditing program, which focuses on the areas where the risk is the highest. There are two auditing methods; the audit of internal controls and the substantive testing. The auditor makes a judgment of how well the internal controls are functioning by an audit of internal controls. By observing the way the controls are being done, or by testing the controls to see how well they have worked, this are verified. The substantive testing consists of an audit of different entities in the profit and loss account and the balance sheet, as well as the transactions behind these entities. The selection can be made subjectively by choosing large and unusual entities. The selection can also be made by systematically choosing for example every 10th post or by making a random selection (FAR Revisionsbok 2004).

3.1.3 Reporting

The audit results in the auditor's report, which is the only official report given. In the report the auditor approves to or objects to the correctness of the balance sheet and the profit and loss account, as well as the correct allocation of the profit or loss and the freedom of responsibility of the members of the board and the managing director (FAR Revisionsbok 2004).



3.2 The Keystones of Auditing

The confidence in the auditor is built on three keystones; competence, independence and professional secrecy. These keystones are regulated in “ABL”⁴, “Revisorslagen”⁵, “Revisorsförordningen”⁶ and in directions from “Revisorsnämnden”⁷ (FAR, 2001).

3.2.1 Competence

Competence is important for the confidence in the work of the auditor. Without the right competence the auditor will not be able to do his or her job in a satisfactory way. To guarantee the auditors competence, the title authorized auditor and approved auditor can only be obtained by a qualification by “RN”.

According to ABL 10:11§ all joint-stock companies are obligated to have an authorized auditor or an approved auditor. To become an authorized auditor you need to have a master degree in business economics and at least five years of experience of auditing. After that you can obtain examination of professional competence as an approved or authorized auditor. “RN” holds the examination. The authorization is granted for five years at a time and is immediately revoked for the one who leaves the profession (FAR, 2001).

3.2.2 Independence

John Dunn (1996) divides the independence into three areas; *Programming independence*, *investigative independence* and *reporting independence*. *Programming independence* points out that the auditors must feel free to choose the strategy for their audit work that is the most appropriate. It may not be in the interest of the company to make a thorough investigation, if they have something they want to hide. If they do not, they surely have an interest in minimizing the audit fee by publishing the financial statements as quickly as possible. *Investigative independence* includes that the auditors must have free access to the documents and records of the company. The company must be able to answer any question about their business and the accounting treatment of the transactions made within the company. The audit should be done with a full cooperation from the company. *Reporting independence* states that the auditor should be free to report. If the company publishes accounting information that the auditor suspect is misleading and incorrect he/she is obligated to report this. However; these disagreements often deal with subjective decisions such as the interpretation of an accounting standard. The auditor is then forced to choose between making a remark or conceding to the will of the company and avoid the sanctions which could be imposed by the directors, even though there will be a risk of being exposed to the possibility of even more severe penalties (Dunn, 1996).

⁴ “ABL”: the Swedish regulation of joint stock companies

⁵ “Revisorslagen”: the Swedish regulation of auditors

⁶ “Revisorsförordningen”: the Swedish ordinance of auditors

⁷ “Revisorsnämnden” (RN): the Swedish Supervisory of Public Accountants



ABL 10:16§ regulate who can become an auditor for a company. To summarize the law the auditor can not:

- own stock in the company or in a company in the same combine
- be a member of the board or managing director of the company or its affiliated company
- be an employee or in any other way subordinate or in a position of dependence to the company
- be active in the same company that he/she is professionally assisting with accounting
- be related to anyone that is a member of the board or the managing director or be in dept to the company (FAR Samlingsvolym, 2005).

The *Analyze model* is also regulating the auditors' independence. Auditors are obligated to examine their independence in every single assignment. Since 2002 the examination is made according to the analyze model (www.far.se, 050415). That the auditor is obligated to document every step in the process is stated by Åke Danielsson, authorized auditor, and Anders Strömqvist, company lawyer in Öhrlings PricewaterhouseCoopers. They both work with independence issues and are following the development on the subject. What is the analyze model? Five situations are treated in the legislation; vested interest, threat of self-auditing, threat of one part's standpoint, threat of friendship and frightening threat. If any of these situations should occur, the confidence will be considered as shaken. In addition to this there is a general clause where you should consider every other situation where the confidence for the auditor's impartialness or independence can be shaken. The burden of proof lies with the auditors. If something that can shake the confidence is discovered, a so-called presumption is set in. This implies that the auditor voluntarily shall decline or resign the assignment. Every step in the process must be documented. If anything should emerge in the aftermath, "Revisorsnämnden", which is the supervising authority, must be able to follow the course of events. The independence is tested during the whole course of the assignment (www.far.se, 050415).

3.2.3 Professional secrecy

To be able to make a reliable audit the auditor needs information about the company. It is important that the company can trust the auditor not to leak any information. If the company does not trust the auditor it is possible that the auditor will not get access to all of the information needed to be able to make a proper audit (FAR Revisionsbok 2004).

The duty of information is, on the other hand, the reverse side of the professional secrecy. The auditor has to inform if he/she has a suspicion of crime. The integrity and independence are driven to an extreme and the auditor has to choose between the two duties; the professional secrecy and the duty of information. In the surroundings of the auditor, he/she has a connection to different interested parties and they all have different expectations of the auditor. These expectations can not always be met according to the legislator's demand of the professional secrecy of the auditor, whereby a gap of expectation occurs. (Collin & Tagesson, 2003).



The auditor shall protect the interests of his/her client and in a serious way deal with information that could be delicate if it ended up in the wrong hands. At the same time, the auditor can not deviate from laws and standards that have to be followed. It is a balancing that makes it difficult to draw the line between the professional secrecy and the independence before the law. The scope of law is designed in a way that leaves room for interpretation, which can put the auditor in a position where he/she has to choose (Collin & Tagesson, 2003).



4. Framework

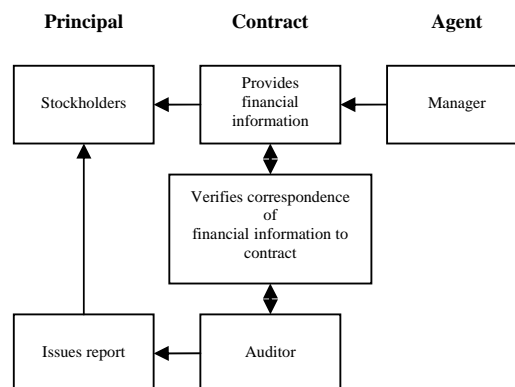
The authors will in this chapter present the framework for this thesis. Initially the authors will describe the Agency theory, which is the most relevant theory for this thesis. Secondly a comparison between RS and RP will be made in order to investigate the differences between these two. These will be further discussed in the analysis.

4.1 Agency Theory

During the industrial revolution corporations needed capital to finance big and risky projects such as the construction of the railway. To finance the project they turned to the public and issued stocks and bonds. This way of financing led to professional managers and non-active owners. The managers ran the business on a day-to-day basis and managed the corporation's assets (Messier, 1997).

The agency theory gives us an explanation to why the auditor diverges from rules and standards. The management in a company can be seen as an agent whose job is to execute tasks in place of the owners, in other words the principal (Collin & Tagesson, 2003). When the manager acts as an agent for the owners a natural conflict of interest occurs. This is because of the information asymmetry between the manager and the owner. The information asymmetry implies that the manager often has more information about the economic situation of the company than the owner has. If both the manager and the owner try to maximize their own self-interest it is possible that the manager acts in a way that is not in the best interest of the owner; for example the manager could manipulate financial reports to get a larger bonus. To protect his or her interests the owner can allow an auditor to audit the reports prepared by the manager (Messier, 1997).

A situation when an auditor can act in the interest of the management is when a dread of bad reputation on the market occurs and the auditor overlooks inaccuracies in the company. The auditor has a fear of other companies receiving information about his or her acting and because of this does not consult the auditor in question. The management can also stimulate the auditor to act in their benefit by means of bribes (Collin & Tagesson, 2003). This figure explains the relationship between the manager, the stockholder and the auditor.



*Overview of the Agency Relationship Leading to the Demand for Auditing
Messier, 1997 p. 7*



4.2 Comparison between RS and RP

FARs apprehension is that RS has a considerably larger richness of details and explains to a greater extent how the work of the auditor shall be carried out and documented, along with a clearer definition of different conceptions. This means, according to FAR, that the auditor gets considerably greater requirements of how the auditing shall be followed through.

RS, as well as RP, consist of different series of which the auditing is formed by:

- **RS 120:** A framework for standard of auditing and close services.
- **RS 200 Series:** Assignment and responsibility
- **RS 300 Series:** Planning
- **RS 400 Series:** Internal control
- **RS 500 Series:** Evidence of auditing
- **RS 600 Series:** Usage of the work of others
- **RS 700 Series:** Conclusion and report

The authors have focused on the RS 200 series in their study.

4.2.1 The RS 200 Series

RS 200 *Measures and general principles of auditing*

RS 209 *Inspection of the Board's and Managing Director's management*

RS 210 *Terms of auditing assignments*

RS 220 *Control of quality in auditing*

RS 230 *Documentation*

RS 240 *Irregularities and faults*

RS 250 *The auditor's obligation to consider laws and directions in auditing*

RS 200

RS 200 does not imply any significant changes concerning the set measures of the auditing. Regarding general principles of auditing, RS 200 points out the auditor's skeptical approach in connection to planning and the realization of the auditing are stressed. The conception satisfactory certainty is initiated in RS 200 (FAR Revisionsbok 2004).

RS 209

The board's, managing director's and the auditor's tasks and responsibility are stated in both RS and RP. The auditor's reporting regarding the inspection of the management is included in RS as well as in RP. In addition to this, RS gives more detailed information about the direction and the extent of the inspection. RS gives examples of stages of inspection at a management auditing which results in that the auditing is more restricted and higher requirements are requested from the work of the auditor (FAR Revisionsbok 2004).

RS 210

RS 210 corresponds partially to RP. Conditions for the assignment shall be defined according to RS 210; a so-called engagement letter shall be established (see Appendix 3). An engagement letter can be particularly important in smaller companies in order to



demonstrate the responsibility of the owners and management as well as the auditor. In many cases, owners to smaller companies are not fully aware of the width of their own responsibility and which responsibility their auditor has. Often, the owners do not realize that the annual report is on their responsibility, especially not if they have bought the services of establishing the annual report externally (FAR Revisionsbok 2004).

RS 220

In RS 220, certain guidelines for the control of the quality are evident for the auditing company and for the separate auditing assignment. RP was only treating quality control within the separate assignment. RS is more explicit and detailed, which would probably mean increased requirements of documented routines and guidelines for quality control within the auditing companies (FAR Revisionsbok 2004).

RS 230

RS 230 mainly treats the same things as RP; however RS is clearer and more detailed. RS gives examples of what work documents usually shall contain (FAR Revisionsbok 2004).

RS 240

RS 240 states that it is the management of the company that will be held responsible for the prevention and the discovery of irregularities and faults by introducing proper systems for internal control and see to that these are well-functioning. According to RS, the auditor can not be held responsible for the prevention of irregularities and faults. However, auditing can have a deterring effect. In the phase of planning the auditor shall estimate the risk of irregularities and faults to result in information that is essentially incorrect. The auditor shall also interrogate the management about the faults that have been discovered. Further on, the auditor shall notice his/her duty to inform, according to the regulation in chapter 10th, 39§ ABL, if there exists a suspicion of crime. This is an adaptation to Swedish legislation that has no equivalence in ISA. One of the general goals of RS is that the auditor shall have a skeptical approach in the phase of planning and the realization of the audit. This has probably resulted in greater requisitions of the auditor. Principally, RS stresses the same thing in this case as RP, but RS is clearer and richer in details (FAR Revisionsbok, 2004).

RS 250

The auditor shall make sure that he/she gets a statement in writing from the management as a proof of that they have informed the auditor of every known and feared case of violation that has to be considered when the annual report is set up (FAR Revisionsbok 2004).



5. Empirical Research

In this chapter the authors will present the empirical research. The interviewees will be introduced and the answers from the interviews will be presented in five different categories. The interview guide is attached in appendix 1. The answers have been presented in the spoken language of the interviewees and therefore the language is not completely accurate. The authors have strived to reflect the underlying shade of meaning of the language.

5.1 Interviewees

Auditor Andersson is an authorized auditor at one of the four largest accounting-firms in Sweden. The auditor has worked as an auditor since 1981, in other words for 24 years. Andersson has an experience of working with small companies, large international companies and affiliated companies. The auditor is also responsible for quality issues at the firm.

Auditor Börjeson is also an authorized auditor at one of the four largest accounting-firms in Sweden. With 18 years of experience of the profession the auditor is now concentrating on larger listed companies as well as smaller companies. At the firm the auditor is one of the responsible auditors of internal and external education.

Auditor Carlsson is an authorized auditor working at a smaller accounting-firm. Carlsson has been working as an auditor for 23 years. The principal assignment is auditing, but the auditor has also been a member of FAR's committee of auditing for one year and a member of SRS's⁸ tax committee for fifteen years. Apart from that the auditor is also working with education.

Auditor Davidsson is authorized and has worked as an auditor for 20 years at one of the smaller accounting-firms in Sweden. The auditor has worked with small- and medium sized companies, but at present Davidsson is working with other assignments connected to auditing.

Auditor Eriksson has been working as an authorized auditor since 1983 and are working at one of the four largest accounting-firms in Sweden. Eriksson's principal assignments are auditing of both small and large companies in different lines of business. Other assignments are education and consultation commissions concerning for example, SOX.

5.2 Answers

5.2.1 General Questions

Auditor Andersson

The auditor does not experience any significant changes concerning the New Auditing Standard. In larger companies, ISA has already been applied and since the New Auditing Standard is built on ISA; the changes have not been revolutionary. Concerning small companies the changes have been larger. Andersson is positive to the New Auditing Standard since the same set of rules has to be followed by all accounting-

⁸ "Svenska Revisorssamfundet": The Swedish Association of Auditors



firms. The New Auditing Standard treats things that have already been applied in the auditors' work, now however it is in print. The engagement letter is a result of the new requirement of standardization, which the auditor believes is positive because of the clarification of the responsibility. The disadvantage is that it sometimes can be conceived as irrelevant. Concerning the larger companies it is important to clarify the responsibility since the amounts are larger. A more detailed auditing standard can be preferable since it is not given that everybody has the same view of control.

Auditor Börjeson

The auditor does not see the New Auditing Standard as anything new, it is just formalization on paper of already existing working routines. Börjeson describes this as an aha-experience because it is a confirmation of that you have already been doing the right thing. The New Auditing Standard is concrete, easy-to-read and profiles materiality and risk. The engagement letter clarifies the responsibility and makes it easier to confront their clients in case of any conflicts. As a result the gap of expectation is more formalized than before.

Auditor Carlsson

Carlsson does not consider that there is any significant difference between the New Auditing Standard and the Auditing Process, but that is if you have been using the Auditing Process the way you were supposed to. The problem is that many auditors have not been doing that and then you experience the New Auditing Standard as something new and revolutionary. The New Auditing Standard is more detailed but the methodology is the same. A proof of this is that RN is discovering the same faults as before the New Auditing Standard was implemented, for example, that the inventories have not been checked or that the balance sheet has not been audited properly. The fact that the auditor should be present to verify that the inventories are properly valued is not new. The difference is that now it is stated in the New Auditing Standard that the auditor should verify the inventories every year, which serious auditors probably have been doing already. RS will not make any difference for the less strict auditors that have no intention to make a proper audit, the ones that have no intention to follow neither RP nor RS. RS has laid the focus on auditing and that is very important.

Carlsson implies that it is difficult to answer the question if RS is fulfilling its purposes or not. The confidence is more connected to other things in the surroundings, for example; softer issues that are making the society have confidence in auditors. Carlsson does not think that RS has any real influence in that matter. The fact that RS is under discussion between the auditors, their clients and in the media improves the quality in the sense that the auditors are becoming more aware of that their work is important. RS is more detailed and easier to follow if you do not know how to audit and then it is easier to improve the quality.

Carlsson states that the New Auditing Standard has not affected the auditing procedure. The new things are the engagement letter and the statement in writing from the management. The auditor are obligated to document everything they choose not to do and why. It is time-consuming and leads to a more expensive audit. Not all documentation feels relevant; some things are even ridiculous. The New Auditing Standard assumes that the auditor is a fool and that it is necessary to give instructions in detail. Carlsson thinks that it is unfair to the auditors.



Carlsson thinks that the fact that the New Auditing Standard is more detailed is negative. It is more similar to an educational material and adjusted for students. An example is the RS 240, which before was only 7 pages, but now is 55 pages long. This is how the international development is proceeding at the moment. It should be comprehensive and everyone should think in the same way as far as possible. However, all companies are different and besides that, all auditors do not have the same experiences, frame of reference and background. It is not possible to capture all in the same framework; everyone is relating to a text in different ways. A danger in this is that when a conflict occurs and a lawyer is analyzing RS through a legal perspective RS can be misapprehended.

Auditor Davidsson

The auditor does not feel that there is anything wrong with developing and adjusting a working procedure, but sees that the New Auditing Standard is too complex. It has a view that can not be adapted to Swedish industry. Davidsson is not so sure that the New Auditing Standard is fulfilling its purposes; it is just a rewriting of the former auditing standard. The New Auditing Standard is focusing on that the auditor always makes mistakes, rather than he/she acts correctly. The auditor's good name can be deteriorated in some situations, and in that matter, the New Auditing Standard is going a bit too far. A new technique of documentation has been created, not a whole new methodology of auditing. A situation when it is more important to document your work rather than actually executing it must never occur. It is the result of your work that is important, not the format of it. However, the phase of planning has been given a clearer pointer through the New Auditing Standard, of how you are going to act in different situations.

Auditor Eriksson

The New Auditing Standard is constructed to adjust Swedish standards to EU. Sweden should be harmonized with the international standards, which is positive. The New Auditing Standard is mainly based on auditing of larger companies. An explanation to this is that few small companies have to be audited in other countries, which results in that the New Auditing Standard can be very burdensome to small companies. Currently, there is a debate concerning if an audit should be required for small companies or not. The New Auditing Standard is not anything new; it is the way things are being done. Some parts of the standard have been more formalized and concretized and some parts are new; above all for the small companies. An example is the engagement letter. Before, if you had a small client it was obvious who was responsible for what, now it has been specified and put on paper. Inventory taking has also been a big issue for small companies. A small company can have inventory in different parts in Sweden and to guarantee that the inventory is properly valued; a physical inventory normally has to be made and that could lead to a very high audit fee.

Eriksson does not think that the New Auditing Standard is influencing the client from the clients' perspective. They get the quality and the confidence that they request and it is the same as before the New Auditing Standard came into practice. The clients are not aware of or interested in the New Auditing Standard. Therefore the New Auditing Standard will not influence the quality and the confidence. They have the same confidence in the auditor as before the New Auditing Standard was introduced and the quality is most likely the same. In certain cases though, the quality might improve. At



some smaller accounting-firms there might be bigger changes since some of them do not have as developed methods as larger firms do. The methods used by larger firms have just gone through minor changes because of the New Auditing Standard. Smaller accounting-firms might have been forced to change their methods.

At the accounting-firm where Eriksson works they have reviewed their method and assured that it is in accordance with the New Auditing Standard. The differences have been very small since it is a global method, which has been adjusted to international demands. Inventory taking has come into focus since it was not clearly stated before and it is concerning many companies. There are other parts in the New Auditing Standard that is important for some companies for example the environmental legislation, the audit of the opening balance when auditing a company for the first time and the question about the going concern concept. The auditor also has to consider not only the accounting legislation and the ABL but also all other legislation that the company has to follow. Then the audit concept gets wider and it is very easy to miss out on something. Eriksson explains that the accounting-firm has been working with all of these things before, however now it is written in the New Auditing Standard and you have to be more attentive to what the New Auditing Standard has to say.

For the larger companies, a more detailed regulation has not made any difference; Eriksson is working in the same way as before. For the smaller companies, the auditor has got a more formal role. The New Auditing Standard is more detailed now and if you do not follow what is in the standard and something goes wrong you will be reported to RN. The problem is that; since it is clearly written in RS you have no excuse for not doing what you are supposed to according to the standard. Eriksson believes that the requirement of an audit for small companies should be abolished because it does not give the company anything. It is all about integrity and confidence and that has not been changed with the New Auditing Standard; you do the same job. The politicians have to make up their minds. As long as the politicians want to have that control over the small companies it does not matter what the auditors have to say. In some way it is necessary to maintain the quality of the accounting and Eriksson believes that the small companies have a good quality of accounting in Sweden today because of the requirement of an audit. The problem is that; in Sweden all companies, small and large, have to follow the same legislation. This makes it very burdensome to be a small company in Sweden.

5.2.2 The Gap of Expectation

Auditor Andersson

Auditor Andersson does not think that the influence of the New Auditing Standard concerning the gap of expectation has been that great. The engagement letter has given the accounting-firms a reason to inform their clients about the New Auditing Standard. The auditor adds that the fee of auditing only has increased marginally because of the New Auditing Standard.

Auditor Börjeson

The confidence in the auditor has increased as a result of clearer roles. Auditor Börjeson states that the fee of auditing will increase with 30 % for the larger listed companies, not only because of the New Auditing Standard, but also because of IFRS, SOX and the new Company Code. Börjeson adds that the fee for smaller companies will change as well, but it is not given that it has to change. The New Auditing Standard enhances the



benefit for the auditors but not for their clients. Before, auditors may have audited more than they needed to, and the New Auditing Standard has made the auditing process more effective.

Auditor Carlsson

Since the client does not know what auditing or RS consist of the client's confidence in the auditor has not been influenced by RS. The confidence is influenced by what is written in the papers and the professionalism of the auditor.

Auditor Davidsson

If the client is well informed, the gap of expectation can be reduced. Initially, the client does not understand the New Auditing Standard but as they have to accept it they do normally, as time goes by. As a result of the New Auditing Standard, more time has to be disposed on every client, which results in a higher fee. Davidsson have had relatively few discussions concerning the fee of auditing with the clients. Since the way of working is ever more computerized, less time is spent on every client. If the New Auditing Standard had been introduced 15 years ago, the augmentation of the fee would have been much higher.

Auditor Eriksson

The New Auditing Standard has no influence on the confidence in the auditor. Most clients do not know about the New Auditing Standard. Those who do know about it, know it because of the engagement letter or because the auditor has to be present during the inventory. Eriksson says that the line of business anticipates an augmentation of 30 % of the audit fee, but as a large accounting-firm it is impossible to charge a higher fee. Other methods have to be used in order to derive advantage from different things in many areas.

5.2.3 Responsibility

Auditor Andersson

Auditor Andersson points out that there is no other alternative than having a close contact with the client. It is crucial to have a good communication with the company. If the auditor was to have less contact with the client it would lead to less objective judgments since the auditor in that case would have to make judgments on his/her own. If the accounting-firm has an important client that it is depending on, the fact that it is the company being audited that pays for the audit could be a risk if the auditor is not being objective. The large accounting-firms can not risk a reveal of an incorrect judgment. The auditor implies that the biggest change that has occurred in the recent years is that there are more eyes watching. "Revisorsnämnden" is supervising, "Skattemyndigheten"⁹ is very active and newspaper articles are written on the subject. A good reputation is important not least for attracting new clients.

The limit between the choice of doing a remark or not is not razor-sharp. There are clear cases such as when a criminal action has been committed or when there is a clear violation of the law. On the other hand there are the more difficult cases with much more complicated questions of judgment such as the valuation of goodwill. It is difficult to anticipate future profits and therefore it is difficult to evaluate them. Another

⁹ The Swedish taxation authority



example is the problem of deciding if a certain item should be a cost for the company or a private cost. Often the auditor and the client come to an agreement and possible errors are corrected.

If the error is of an exceptional offence, for example a delayed interim report, the auditor might not remark. If the same thing happens the following year the auditor has to draw attention to this to a greater extent.

The New Auditing Standard has not led to any changes in the responsibility of the auditor according to Auditor Andersson. A few things have been added, for example that the auditor is obligated to report if he/she suspects that something criminal has occurred. In relation to this, for listed companies in the US, the regulation has become much stricter. This in turn results in more work for the auditors and higher remunerations.

Andersson partly agrees on that more responsibility leads to higher quality of the auditing. Concerning the regulation in the US a more extensive auditing should lead to higher quality. In Sweden there is more focus on fraud and that the auditor should be more vigilant and try to identify risks. Before, the auditor had to react if something came up, for example embezzlement, and now this is more integrated in the process of auditing. The auditor should always try to identify possible risks. Certain lines of business can be riskier than others and then it is even more important to be vigilant.

Auditor Börjeson

Auditor Börjeson states that the two main things that the auditors are living by are integrity and independence. They can never risk being questioned about their role as an auditor. Most likely there are situations where the company being audited tries to manipulate the auditor in a certain direction, but Börjeson has never felt influenced by any company in that matter. The clients have to be able to argue for and motivate why they are striving in any direction. An auditor is most definitely dependent on their clients as they are the ones that pay the auditor's bill, but never to the extent that the auditor's integrity can be affected. If any doubts emerge, the auditor shall consider reassigning the assignment. The analyze model exists for this cause; to reassure that the auditor actually is independent. It is all about having a professional attitude.

The auditor has to react if the annual report consists of any incorrectness of essential meaning. If the client chooses not to correct this error, the auditor has to remark by writing an adverse opinion. The auditor has to have a skeptical approach, and remark if there are any uncertainties.

Börjeson states that the responsibility of the auditor has become more concretized than before. The engagement letter and the letter from the management to the auditor are examples of clarifications that make the gap of expectation smaller.

Auditor Börjeson does not feel that the auditor's responsibility has increased as a result of the New Auditing Standard; the responsibility has rather been concretized. Auditor Börjeson does not have any answers to if it is a good thing or not that the audit is done more effectively nowadays.



Auditor Carlsson

The auditor does not think the close contact with the company is affecting the objectiveness. It is easier to tell a client you know well to correct something, than it is to tell the same thing to a client you do not know that well. It is easier to influence that client in the wanted direction.

If the client is important and losing the client would be very disadvantageous, the neutrality of the auditor can be affected and the auditor might think twice before remarking. However, in most cases the auditor is not depending on one single client. Carlsson's accounting-firm has lost clients because they have been uncomfortable. Often it is a relief to lose those clients since in most cases it has not been a good cooperation anyway.

Carlsson thinks that it is impossible to be absolutely neutral and objective. A person always has his or her experiences and preconceived ideas. The way you feel about the client is more important than the payment. If you do not like the client it is easier to remark. If you like the client you are more concerned about how you present the message. All auditors may not be aware of how much they are influenced by the personal attitude towards their client. This is something that is impossible to regulate by law.

If the auditor chooses to remark depends on the amount and if it is essential or not. It is also important how large the company is, the solidity and which interested parties there are. In the directors report it can be difficult to decide what should be added and what should be cut out. There is always a possibility for some things to slip through; things that you might think should not as a result of the difficulty to motivate. Concerning taxes and fees it is easy to remark if anything is wrong. If it is the first time it occurs or if it is a systematic fault is also considered. For example a forbidden loan could be something that is done systematically or something the client is unaware of. The circumstances are also influencing the outcome and the auditor has to consider more than the question in fact.

Carlsson does not think that the responsibility has changed. The auditor still has to do a good job. The rules have changed, the way of working has changed, but the responsibility is still the same. The auditor thinks that after all, more responsibility results in higher quality. If the auditors get more responsibility in connection to the reporting duty of preventing economic crime, the auditors first have to be educated and that is augmenting the quality since the competence and knowledge is augmenting. New areas to focus the audit on, such as economic crime, can also augment the quality. The question is if it leads to higher quality for the client. If the client has everything in order, the new tasks will only lead to a higher fee for the client and there will be no direct improvement. Indirectly, the interested parties' confidence in the annual report could improve which is good for everyone.

Auditor Davidsson

The auditor believes that it is relatively easy to be objective as an auditor because of the fact that there are certain rules to follow, and the figures are what they are. Davidsson does not think that the amount of money, which is paid to the auditor, has a significant meaning concerning the dependence. It is important to have personal and professional



integrity. Objectivity and neutrality are conceptions that sound good. However in reality, it is difficult to be completely objective and neutral when you are working with relations and have a service profession. Hypothetically, if your friend since childhood would visit your firm and ask you to be his auditor, you would not throw him out. That is the real answer. There exists a façade in the line of business; however, there is also a practical reality behind the rules. It is all about you as an individual, and how you conduct yourself professionally. An auditor can still be professional even if you have known somebody for 20 years.

As an auditor, you have to make distinctions every day. Nothing in life is black or white. There is always a complex of problems with distinction; of how you shall handle the information you receive. According to Davidsson, you should only make a remark in the auditor's report if you really have to. Decisions you make will always be questioned afterwards. Conclusions are made on the basis of the information you have collected. But in the end, it is a matter of materiality and risk. Auditing is about collecting information so that you can hand in the auditor's report, and that is what materiality is. It is important to have controlling functions and a well functioning reporting inspection to be able to secure the quality. If the auditor is insecure about an issue, a colleague is consulted; a so-called Second Partner Review is followed through.

The responsibility of the auditor has never really changed, on the other hand, the world around has; nowadays, it is more common with reports to "RN". The responsibility of the auditor is claimed in a greater extent than before, but the responsibility has not changed to its character.

Davidsson does not think that the issue of responsibility has anything to do with quality. If responsibility means that you are afraid of not doing the right thing as an auditor, and therefore is afraid of taking a standpoint, then you might harm your client as well.

Auditor Eriksson

The auditor does not think that it is difficult not to be objective as an auditor if you know your role. Following RS or not has no significant meaning concerning the objectivity. Disagreements may occur, however, most clients do not want to have remarks in the auditor's report.

It is generally accepted in Sweden that it is the company being audited that actually pays for the audit. Clients may think that some accounting-firms are too expensive, but then they can change auditor. The standpoints an auditor has to consider are not based on money. Eriksson thinks that; in 99 % of the cases, it is not hard to be neutral as an auditor. Most auditors are not willing to get themselves dirty in order to keep a certain assignment. As an auditor, you do not want to be exposed by the media.

A distinction can be if the auditor requires that something additional should be written in the annual report, something that has happened after the closing of the accounts that has affected the company in some way. If the company makes these changes, the auditor does not make any remarks in the auditor's report. The auditor is after all striving for that the reader of the annual report shall have access to all information needed. Additional explanatory notes given from the company can make the auditor choose to sign the auditor's report, even if the intention was different at first.



The responsibility of the auditor has not really changed. The responsibility has nevertheless been expanded through new legislation. At present; if the auditor notices any irregularities he/she has to act, before the New Auditing Standard, this was not the case. The responsibility of the inspection has not increased, but the auditors have to observe certain parts to be able to act in a way that they have not been earlier.

Eriksson thinks that it is difficult to answer if more responsibility for the auditor has led to a higher quality of the auditing. Different specialists in the auditing teams are consulted in certain issues; this is augmenting the quality since it is not only one person that reviews the assignment. This is not anything new; it is the way they already have been working. The auditing has become more structured than before, especially in small companies. This may lead to a higher quality since afterwards; you can see exactly what has been documented. A risk is that the auditors may not have become more competent concerning legislation just because they have a responsibility to be more attentive.

5.2.4 Quality

Auditor Andersson

The independence of the auditor is an absolute condition for making an audit of good quality. The auditor also has to understand the business activity, otherwise it is not possible to identify risks and be sure that the audit is focusing on the right areas. This is crucial to be able to make good evaluations of materiality and risk. A good contact with the client is important and the professional secrecy is essential for an open dialogue. Since there is a limited amount of time for the audit it is of great importance that the audit is concentrated on the right things. Auditor Andersson thinks that these factors are reflected in the New Auditing Standard.

The accounting-firm has an internal quality program where the auditors are inspected by another office in Sweden. Checklists that are built on ISA are used for the inspection. During the inspection all documentation done during the audits are controlled. There are also other kinds of quality measures, such as comparing Sweden with other countries.

When changing the accruals concept the company has to be able to motivate why they are changing them. The auditor has to evaluate if the amount is essential, if it is and the company refuses to change it, the auditor has to remark. It is not acceptable to change the accrual concepts in order to manipulate the profit or loss.

Auditor Börjeson

Primary, to be able to make a good audit, the auditor has to understand the business. Good quality of auditing can also be attained by the actual company being audited. Monthly check ups of the balance accounts and having a well functioning attest routine are examples of what the company can do in order to give the audit a higher quality. Auditor Börjeson feels that these factors are reflected in the New Auditing Standard. The New Auditing Standard consists of 380 pages that describe, in detail, how the audit should be followed through.

Every auditor shall be inspected at some point and the auditor is randomly selected. Auditors from different cities but from the same firm inspect each other. Every part of the selected auditor's assignment is being revised. Being inspected is never comfortable,



but those are the rules. If there are any errors discovered in an assignment, the auditor can be warned or excluded as an auditor.

If a company is trying to manipulate their profit by using unreasonable accrual concepts, the auditor has to remark if the amount is essential. If the change can not be motivated and it gives an incorrect image of the company, the auditor writes an adverse opinion. In most cases, the companies choose to adjust for the remarks of the auditor.

Auditor Carlsson

Knowledge and competence are not just the crucial factors but the only factors for an audit of high quality. If the auditor does not have the competence; regulation is worthless. Education, further education and other competence ameliorating measures are important since the legislation and the society are changing continuously. Older auditors might not have the same urge for education, which could be a risk of poorer quality.

At the accounting-firm the 30 largest clients are being exposed to a quality control every year. The other clients are inspected every five years. Three co-workers are responsible for the quality control, but all co-workers are participating in the internal quality work, which is guaranteeing that everyone knows what quality is and that it is important. Carlsson is a quality controller for both FAR and SRS which are performing external quality controls. Someone from another accounting-firm performs an inspection every five years. It is rather sensitive to let a competitor inside the firm; therefore it is preferable to have someone from an accounting-firm outside of Gothenburg to come to the office. The external quality controls have resulted in that some auditors no longer are auditors. When the auditor is about to be inspected he/she chooses to retire or become an accountant. In that way you could say that the external controls have cleaned up the profession.

If the auditor discovers a fault it depends on if the fault is small or large if they choose to remark or not. If it is a small fault there will be no remark. If it is large, the client has to change it, which they almost always do; otherwise the auditor has to remark in the auditor's report. It is imaginable that problems with accruals should be treated differently since the profit or loss in the end will be correct no matter what depreciation period chosen, but these faults are treated the same way as other faults.

Auditor Davidsson

The crucial factors of a good quality of auditing are competent co-workers and a reasonable way of working. Davidsson feels that the New Auditing Standard, in a sense, is going too far. It means too much work with less quality.

The auditor has an internal control system at their firm, which is used at every office and between the different offices. These internal controls are later revised by "RN". They have two auditors at the firm that are responsible for the quality control in general, but the execution of the quality controls is carried through by everyone at some point.

If you change the accrual concept, it has to be motivated in the annual report. If the auditor feels that the change is not really motivated, you have to discuss it with your client. If you have a reasonable dialogue with your client, problems like these can be



resolved easily. Most clients want it to be done properly. An auditor has to take precaution when a new client is signed, clients you can not have a dialogue with, are clients you do not want to have. Today, it is more difficult for an auditor to resign from an assignment as a cause of the new term that is four years. According to the New Auditing Standard, when signing on a new client; the new auditor has to contact the former auditor of the company. In this way, the new auditor can get a clearer view of the company.

Auditor Eriksson

That the client is aware of which role the auditor has and confidence in the auditor is important according to Eriksson. A higher quality can be achieved if the auditor receives enough information to be able to make a proper audit; focusing on the essential issues. It is important that the auditor plans the assignment well and that the right auditing team is assigned to the right assignment.

The phase of planning is reflected in the New Auditing Standard considering the engagement letter etc. Soft issues, such as confidence, are not reflected in RS. Evidence of auditing exists in RS, but you have to receive information about *that* you are supposed to look for evidence of auditing in a certain issue, which is not reflected in RS. The new Company Code may encounter with the New Auditing Standard through certain rules of how to act in different cases.

As an authorized auditor, some of your assignments are controlled every three years. Employees from other offices perform quality control assignments according to a certain guide. Smaller companies are subject to the quality control by other offices in Sweden; meanwhile the larger companies can be controlled on a global basis. The quality controls are followed through on a yearly basis, and the company has a special organization for quality controls that realizes the controls. Every year, a final report of the controls is compiled to the board and management of the accounting-firm.

The issue with accruals is not treated any way differently than other issues. If there is not anything to question concerning the auditing, it might be an essential issue from the “Skatteverkets” point of view. The auditor is not interested in the consequences of the taxation if it is not an essential amount. If something has been wrongly distributed over a period of time, the auditor can point this out, but he/she does not have to change it if it has no significant importance to the fair view of the company. It does not exist an annual report without any faults. It is easy to believe that, but that is not the way it works. Everything is not black or white; often there are many different ways of doing things.

5.2.5 Other ways of Improving Quality

Auditor Andersson

At the accounting-firm where Auditor Andersson works they work internally to improve quality since it is an important issue. Recently all the personnel were involved in a seminar where questions about risk management were treated in order to augment the consciousness about the issue. Information is also e-mailed and can be found in databases. If the auditor has to make a decision about a complicated issue; he or she can not make that decision without consulting an experienced colleague.



Auditor Börjeson

Börjeson feels that regulation, standards and “BFNs Allmänna Råd”¹⁰ are sufficient tools to secure the quality of auditing. You can choose to deviate from standards if you can motivate it, but you can not deviate from the existing regulation. However you can not get past that there will always be some people that choose not to follow the laws.

Auditor Carlsson

Carlsson thinks that education is important. According to FAR and SRS ethical rules an auditor is supposed to have a certain amount of education during a three to five year period. Carlsson would like to get more focus on education and a better control of which education people choose to attend to. On an average an auditor should cover about 40 hours of education per year. Some are choosing to go for a weeklong tax course in the Bahamas, which is only covering a small area of the auditing subject. Carlsson would like to see higher demands on which education auditors choose to attend to in order to improve the quality. A problem is that there are not a lot of exciting courses and most of them are held in Stockholm. A wider scope of courses to choose from and the possibility to take a course in other parts of the country would make even the most experienced auditors interested in further education.

Auditor Davidsson

Davidsson thinks that you cannot legislate on a good auditing quality. However, everything can be improved. You have to try to be on top of the information that you receive and strive for a better quality of auditing. More quality controls within the auditing staff should be a better way to estimate quality, rather than new regulation. You have to consider the cost and benefit of the regulation; in small companies this is not always compensated.

Auditor Eriksson

Eriksson does not really believe that there are other ways of improving the quality of auditing than through regulation. However, there are other ways of improving the quality of the economic accounting for small companies. The politicians can decide on who shall secure the quality of the accounting in small companies. Perhaps it does not have to be the auditors, in Germany for example, they use tax consultants.

¹⁰ Advice from the Swedish Accounting Standards Board



6. Analysis

The authors will in this chapter present an analysis of the empirical research in order to answer the questions presented in the problem formulation. The answers from the interviewees are compared and compiled, followed by the analysis of the authors that is given in italic.

6.1 General Questions

All of the auditors agree on that the New Auditing Standard has not led to any significant changes. Andersson and Eriksson both think that larger companies have not been affected to the same extent as small companies have. International rules (ISA) have already been applied in the larger companies, is stated by Andersson. Eriksson thinks that the New Auditing Standard is based on auditing of larger companies since most European countries do not have any requirements of an audit for smaller companies. The problem is that all companies have to follow the same legislation, which is very burdensome for small companies. Andersson, Börjeson, Carlsson and Eriksson feel that the New Auditing Standard is a confirmation of that the work they have been doing has been done correctly, but now it is clearly stated in the New Auditing Standard. Eriksson adds that the flip side to a more detailed standard is that you no longer have an excuse not to follow the standard since it is obvious how you are supposed to act in every situation. Davidsson feels that the New Auditing Standard is too complex and focuses on that the auditor always makes mistakes. Carlsson agrees to this and thinks that this is unfair to the auditors.

Andersson, Börjeson and Carlsson state that the engagement letter is one change that the New Auditing Standard has brought. It clarifies the responsibility, according to Andersson and Börjeson. Andersson, Carlsson and Davidsson agree on that all documentation is not always relevant. According to Davidsson; a situation when it is more important to document your work rather than actually executing it must never occur. Now, the auditor has to document everything he/she chooses *not* to do and why, according to Carlsson. Carlsson adds that it can be a risk that everyone relates to a text in different ways because of different experiences etc.

The New Auditing Standard has not led to as many changes as the authors thought it would. The largest change has been for the smaller companies, as they have to document more and in some cases the audit becomes more extensive. The larger companies have already been following international rules and the changes have not been that revolutionary. In most European countries, a requirement of an audit does not even exist for small companies. A more detailed regulation that is adjusted to larger companies makes it difficult to run a small business in Sweden. The rules can be too complex and too difficult to follow. The auditors who work at the small accounting-firms are the ones who are the most negative towards the New Auditing Standard, probably because they are working with small companies. Maybe it should be "Skatteverket" that supervises the small companies instead of the auditor. "Skatteverket" are those who have the biggest interest in a proper accounting of the small companies. In the auditor's point of view, RS can be both positive and negative. Positive because it is easier to follow and negative because it is impossible to audit every single part of a company. A more detailed standard does not make it easier for the



auditor to do a proper audit and find more irregularities than before but it does make it easier for "RN" to prosecute the auditor. Extensive documentation can be a good thing since it is easier to go back and control what has been done, but a consequence of more documentation is that it requires more work and higher fees which is not always preferable.

6.2 The Gap of Expectation

Andersson, Carlsson and Eriksson think that the gap of expectation has not been influenced by the New Auditing Standard. Carlsson and Eriksson agree on that most clients do not even know what RS is; therefore it cannot affect the confidence in the auditor. The confidence in the auditor is influenced by what is written in the papers and the professionalism of the auditor, according to Carlsson. The engagement letter has given the auditors a reason to inform the clients about the New Auditing Standard according to Andersson and Eriksson.

According to Andersson, the audit fee has increased marginally because of the New Auditing Standard. Börjeson says that the audit fee of larger companies will increase with 30 %, but not only because of RS, also because of IFRS, SOX and the new Company Code. The audit fee for small companies does not have to change since the New Auditing Standard has made the audit process more effective. Carlsson mentions, under General Questions, that the New Auditing Standard has led to a more expensive audit because of the requirements of documentation. More time has to be disposed on every client, which means a higher audit fee, according to Davidsson. Eriksson says that the line of business anticipates an augmentation of 30 %, but as a large accounting-firm it is impossible to charge a higher fee.

According to the Agency Theory; the role of the auditor is to supervise the relation between the manager and the owners. A gap of expectation occurs when the distribution of the responsibility is not well defined. The responsibility of every part is well defined in the regulation; however in praxis it is not always crystal clear. The manager and the owners have to realize that the auditor does not have the responsibility of the accounting, only of that the audit is done properly. The authors believe that a more detailed regulation results in a larger gap of expectation because of the fact that the client does not understand what the auditor actually does. The auditors are more focused on that rules and regulation have to be followed rather than reflecting the real situation of the company. It gets more difficult for the companies to see the connection between the figures in the bookkeeping and the actual situation of the company when the accounting rules are getting more complex. The risk of a more detailed regulation is losing the true and fair view of the company. It is difficult for the clients to understand what it actually is that they are paying for. The clients may believe that the auditor controls everything the company does and that is why the expectation of the auditor is that high.

The authors think that the letter of engagement has reduced the gap of expectation since it clarifies the responsibility of each party. The authors believe that the gap of expectation in general might be larger for the small companies because they do not have any significant interest in auditing and do not really understand it. Small companies do not have the competence within the company to the same extent as large companies have.



The opinions of the audit fee have been very widely spread. It seems like the fee will change for the larger companies but maybe not only because of RS. Other changes in the Swedish and international legislation are also influencing the audit fee, such as IFRS and SOX. The fee for the smaller companies will increase if the audit is not more effectively performed. The question is if the benefit of auditing compensates for the cost of auditing. That is a question not easy to answer but the authors believe that the larger companies have a greater benefit from the auditing because of the increased confidence in the annual report. For the smaller companies, a higher quality is not achieved and the cost is not compensated. The role of the auditor is to control that the manager acts in favor of the owners; in the Agency Theory this is clearly illustrated. In small companies where the owner and the manager is the same person, the role of the auditor is very different from the role in large companies. The problems of auditing differ in small and in large companies. In small companies the foremost assignment of the auditor is to control that taxes and VAT is correctly accounted for. In large companies the main assignment is to make sure that the interests of the owners are met.

6.3 Responsibility

All interviewees agree on that it is not difficult to be objective even though they have a close contact with the client. Andersson states that there is no other alternative than having a close contact. According to Eriksson it is generally accepted that it is the company that pays for the audit. Carlsson thinks it is easier to tell a client you have a good contact with to change something. Davidsson thinks that the fact that you have to follow certain rules makes it easier to be objective. Andersson and Carlsson agree on that if the accounting-firm has an important client that they are depending on, there could be a risk of the auditor not being neutral. Börjeson states that the auditor most definitely is dependent on their clients, but never to the extent that the auditor's integrity can be affected. Andersson and Eriksson mean that an auditor is not willing to risk a reveal of an incorrect judgment and maybe be hanged out in the media and lose his or her reputation. Carlsson and Davidsson think it is impossible to be absolutely neutral and objective. Carlsson means that a person's experiences and preconceived ideas are influencing his or her attitude towards the client. Davidsson means that working with relations and having a service profession makes this impossible. According to Davidsson there exists a façade in the business; however, there is also a practical reality behind the rules.

As Davidsson states; the auditor has to make distinctions every day. Nothing is black or white. Andersson describes this as that the choice of doing a remark or not is not razor-sharp. Davidsson thinks that you should not make a remark if you do not have to since the decisions you make will always be questioned afterwards.

Factors that could influence the choice of remarking or not:

- If it is the first time or if it is a systematical fault (Andersson and Carlsson)
- If the reports consists of any incorrectness of essential meaning (Börjeson)
- If the amount is essential or not (Carlsson)
- How large the company is (Carlsson)
- The solidity of the company (Carlsson)
- Which interested parties there are (Carlsson)



Difficult Cases of Remark

- Valuation of goodwill (Andersson)
- If a cost is for the company or a private cost (Andersson)
- Directors report, what should be added and what should be excluded (Carlsson)
- Should something additional be written in the annual report? (Eriksson)
- Additional explanatory notes can make the auditor sign without a remark (Eriksson)

Clear Cases of Remark

- Criminal action (Andersson)
- Violation of the law (Andersson)
- Taxes and fees (Carlsson)

Andersson, Börjeson, Carlsson and Davidsson agree on that the responsibility of the auditor has not changed. Börjeson thinks that it has been concretized. Eriksson thinks that it has not really changed but it has been expanded through legislation. Andersson agrees on that a few things have been added. Andersson and Carlsson agree on that more responsibility leads to higher quality. According to Andersson more extensive auditing should lead to higher quality. Carlsson thinks that the education and the augmenting of the auditor's competence give a higher quality. Börjeson thinks it is a difficult question to answer. So do Eriksson but the use of specialists in auditing teams and the fact that the audit becomes more structured, especially for small companies, should also augment the quality. Carlsson also adds that even though the quality of the audit is augmenting it is not sure that it leads to higher quality for the client. Davidsson does not feel that responsibility has anything to do with quality. Not if it means that you are afraid of not doing the right thing as an auditor and therefore are afraid of taking a standpoint.

The authors think that it is not possible to be totally neutral and objective as an auditor. Unconsciously, personal references and preconceived ideas influence the decisions they make. It is inevitable not to have a relation to the client, something that could influence the audit. However, the auditors agree on that it is not difficult to be objective and neutral towards the client. The authors believe that this is a standardized answer that is given in order to keep a façade towards the public. To be able to trust auditors it is necessary to believe that the auditor beyond doubt is objective and neutral. RS might make it easier to be objective in this matter because you have certain rules to follow. The choices of the auditor are easier to motivate and gives the auditor a better starting point in a discussion with the client. Media has a great influence on the business of auditing, and the profession has been given a lot of attention in the press lately. This is something positive to the business since it brings focus to the auditors and the importance of their work. As an auditor it is important to have a good reputation, and the risk of getting negative publicity has a preventive effect.

The interviewees emphasize materiality and risk as crucial factors for the choice of making a remark or not. The authors believe that there are more factors that are influencing that choice. Nothing is black or white in auditing, but there are easier and more difficult cases of distinctions. The interviewees have given some examples that are listed above. The easier cases are those in which a clear violation of the law has been



made. In these cases there are no options because of the laws that clearly make distinctions between right and wrong. The more difficult cases include more factors to consider. The choice of making a remark or not is based on what feels right for the auditor in question, and that might not be the same as for another auditor. A number of things can influence the choice, such as who the client is, the relationship between the auditor and the client, the state of the market etc. The valuation of goodwill, for example, is very subjective and is depending on the opinion of the auditor. The accepted valuation could be higher if the auditor is very business-minded and positive than in the case of an auditor who is cautious. These choices are based on morality and the common sense of the auditor.

The concept materiality is very vague and it gives the auditor a free scope to make judgments of the situation. The authors believe that this is necessary in order to make the right decisions for every company since they are different. The auditor has to possess a lot of knowledge and have the right intentions. A competent auditor has to question every indication of an error and if the company is not co-operative this probably means that they have something to hide. The materiality concept must never be used to conceal faults.

To be able to judge if it is an essential issue; the auditor has to consider how it will affect the company and the users of the annual report. An auditor that makes audits of a large company have to consider the point of view of all interested parties, in opposite to the auditor of a small company where the owner, stockholder and the managing director often are the same person. This affects the choice of making a remark or not.

The responsibility of the auditor does not seem to have increased. To achieve the highest quality possible, the auditor has to audit every single transaction the company makes. This is not possible to carry through in practice because it would be too expensive and ineffective. If the changed responsibility leads to education, the quality should augment since the auditor will possess a higher competence to discover fraud and other violations of the law. An auditor can not discover every fault in the accounting. The auditor has to have the right knowledge and skills in order to focus the audit on the essential areas.

6.4 Quality

Andersson and Börjeson both agree on that, to achieve a high quality of auditing, it is of great importance that the auditor understands the business. Carlsson and Davidsson state that competence of the co-workers is one of the most crucial factors to attain quality of auditing. Carlsson adds that it is important to focus on education for the co-workers. Andersson and Eriksson think that an open dialogue is important to be able to make an audit of high quality. Börjeson states that the company itself can contribute to the quality of the audit by well functioning working routines. Some of these factors are reflected in the New Auditing Standard, according to the auditors.

All of the accounting-firms of which the interviewed auditors work at have both internal- and external quality controls. Andersson, Börjeson and Eriksson agree on that most of the internal controls are executed by the accounting-firm of one's own but by another office in Sweden. Some of the larger offices can be controlled on a global basis by other offices worldwide. All of the auditors agree on that all auditors have to be



exposed to a quality control at some point. The co-workers at Carlsson's and Davidsson's accounting-firms all have to participate in the process of quality controls at some point. Carlsson states that their accounting-firm is exposed to an external quality control every five years by another accounting-firm outside of Gothenburg. According to Davidsson, their internal controls are later controlled by "RN".

Concerning the problems with accruals, Carlsson and Eriksson both state that these problems are not treated any differently than other problems. Andersson and Börjesson are of the opinion that it is not acceptable to manipulate the profit or loss. All of the auditors agree on that changes in the accrual concepts have to be motivated, if not, and the amount is essential, the auditor might make a remark in the auditor's report. Börjesson, Carlsson and Davidsson point out that; the clients in most cases want the audit to be done properly. Eriksson states that; what is not an essential amount to the auditing might be according to "Skatteverket".

The authors think that a high quality of the audit could be achieved if the cooperation between the client and auditor is well functioning. This way; unnecessary mistakes and misunderstandings can be avoided. Competence is one of the key factors to a high quality audit.

The quality control systems of the accounting-firms seem to be well functioning. Internal, as well as external controls are carried through on a regular basis. These controls lead to a discussion between the auditors and the supervisor. It is not only a quality control, but also an exchange of experiences and working procedures.

The problems with accruals are that the large companies can use the accruals in order to manipulate the profit and loss to their advantage. To move profit from one year to another might affect the readers of the annual report in a certain direction. Small companies do not have the same urge to mix with the profit because they do not have as many interested parties. The auditor agrees to a change in the accrual concept if the change is motivated. The profit should give a true and fair view of the economic situation.

6.5 Other ways of Improving Quality

How to improve quality without using regulation:

- Work internally. (Andersson)
- Seminars for the employees to augment their consciousness about a certain question. (Andersson)
- Information sent by e-mail and to be found in databases. (Andersson)
- Consulting an experienced colleague about complicated issues. (Andersson, Davidsson)
- The regulation, standards and "BFNs Allmänna Råd" are sufficient tools. (Börjesson)
- More focus on education. (Carlsson)
- More control and higher demands of which education the auditors are choosing to attend. (Carlsson)
- More quality controls within the auditing staff (Davidsson)
- Does not believe that there are other ways of improving the quality of auditing than through regulation. (Eriksson)

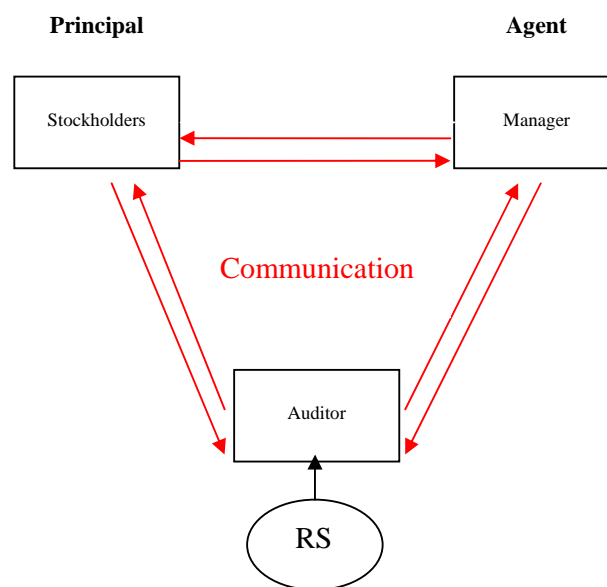


The authors believe that it is impossible to do an audit of high quality if the client is not cooperative. If the client does not have their accounting in order, the auditor has no possibility to control accuracy of the company's bookkeeping. Even if the company tries to follow the regulation it could be too complex and have a deterring effect for them. Everything can not be controlled through regulation. The competence of the auditor has to be maintained continuously, through information, education and an ongoing discussion between the co-workers. An auditor has to have a sense for the line of business he or she is auditing; it is not enough that you know the regulation and the standards. A good audit can not be achieved through any certain model. Since all companies are different it is important to be able to interpret the figures of each company in order to estimate if it gives a true and fair view of the economic situation. Two of the interviewees felt that regulation is sufficient to achieve a high quality. The authors interpret this as a possible misinterpretation of the question or that the interviewees felt that regulation is the most important way to attain high quality.

6.6 The Relationship between Auditor and Client

The agency theory describes the relationship between owner, manager and auditor. The main idea is that the auditor should see to that the manager is leading the company in the direction wanted by the owners. In reality the relationship between these parties is much more complicated. To be able to fulfill his/her commitment it is necessary for everyone to cooperate, which requires communication. All the interviewees have mentioned this in different ways.

- It is crucial to have a good communication with the company (Andersson).
- It is easier to tell a client you know well to correct something, than it is to tell the same thing to a client you do not know that well. It is easier to influence that client in the wanted direction (Carlsson).



The New Auditing Standard in the Agency Theory based on Messier's model



Andersson and Carlsson describe the importance of having a good communication with the client. The auditor and client can not work together if there is any kind of hostility between them. The auditor has to trust the client to give all information needed and the client has to trust the auditor to give the right advice. If the auditor knows the client well, he/she knows what to expect and the roles are clearly stated.

- An auditor is most definitely dependent on their clients as they are the ones that pay the auditor's bill, but never to the extent that the auditor's integrity can be affected (Börjesson).
- It is important to have personal and professional integrity. Objectivity and neutrality are conceptions that sound good. However in reality, it is difficult to be completely objective and neutral when you are working with relations and have a service profession (Davidsson).
- The auditor does not think that it is difficult not to be objective as an auditor if you know your role (Eriksson).

Even though the auditor and the client have a good cooperation it is important that the auditor remains independent. The interviewees have described this as personal and professional integrity and that the auditor must know his/her role. The auditor must be able to know where to draw the line. The auditors must never lose their independence and choose not to remark because of the influence of the client.

6.7 Compliance with the Standard

If the regulation gets too complicated, people might not be able to follow it. It might get too extensive for the users to grasp. It is easier to make mistakes if the standard is too detailed and includes too many aspects. One consequence that the standard has brought is that the auditors are obliged to carry out certain procedures that were not imperative before. The interviewees' opinions are reflected as follows:

- RS will not make any difference for the less strict auditors that have no intention to make a proper audit, the ones that have no intention to follow neither RP nor RS (Carlsson).
- The New Auditing Standard assumes that the auditor is a fool and that it is necessary to give instructions in detail (Carlsson).
- The New Auditing Standard is focusing on that the auditor always makes mistakes, rather than he/she acts correctly (Davidsson).
- At some smaller accounting-firms there might be bigger changes since some of them do not have as developed method as larger firms (Eriksson).

There will always be people not acting according to the standard and the New Auditing Standard will not change this. The fact that it is more detailed makes it harder for the less serious auditors to motivate why they avoid auditing for example the inventory taking. The interviewees point out that the New Auditing Standard is too detailed, it is assuming that the auditor does not have the right intentions. The question is if a standard should be adjusted for those who are not willing to follow the standard or for those who do. Maybe there are other ways to get to the less serious auditors, for example more frequent quality controls.



7. Conclusion

The authors will in this chapter present the answers to the questions posed in the problem formulation presented in the first chapter of this thesis. A suggestion for further research on the subject will also be given by the authors.

Which are the most important differences between the New Auditing Standard in Sweden 2004 and the former Auditing Process, 200 series?

One of the main differences is that the New Auditing Standard is more detailed and clear about how you should proceed in different issues. The engagement letter is the most obvious difference for both auditors and clients. It has been mentioned by all the interviewed auditors in connection to the gap of expectation and the division of the responsibility. That the auditor is required to have a skeptical approach is a new conception that has been added in the New Auditing Standard. The documentation routines have become more extensive in order to improve the work procedure and facilitate quality controls.

Has the responsibility of the auditor changed?

The responsibility of the auditor has not changed with the New Auditing Standard. It is rather the requisitions of the auditor that have increased. Now, the auditor is obliged to attend to the inventory taking every year, which was not as strict before. A common feature of the standard is that the auditor is obligated to follow through certain procedures that before were not a requirement. Before these procedures were done only if the item was essential. The responsibility has become more concretized than before through the engagement letter. The increased attention from the press and media has raised the requirements of the auditor as a cause of the accounting scandals. The line of business is being supervised to a larger extent than before and the reports to "RN" have become more frequent. The experienced responsibility of the auditor has been more influenced by the surroundings than by the regulation.

Is the New Auditing Standard fulfilling its purposes? (quality and trust)

This question has to be answered from the perspective of small companies and large companies respectively. For the small companies the benefit of the New Auditing Standard does not compensate for the cost. The standard is adjusted to larger companies that have an annual report that is aimed for the public. The New Auditing Standard is a result of a harmonization to international regulation that was created to avoid scandals on the financial market. The purpose to increase the trust in financial reports is not concerning the small companies since the owners of the small companies do not have the same need for external information. The owners of a small company have a closer relation to the company than the owners of a listed company that trades with stocks on the market.

The purpose to increase the quality of financial reports does not concern the small companies either to the same extent as the larger companies. If an auditor has to review more things the quality should increase, however; the cost has to be considered. Higher fees of the audit are not defensible for the small companies since their cost of the audit in relation to their turnover will become too high. The larger companies benefit from the increased trust in the annual report and are able to bear the expenses of the audit. Therefore the authors believe that the New Auditing Standard is fulfilling its purposes to a greater extent concerning large companies.



Has the role of the auditor changed?

The role of the auditor has not gone through any revolutionary changes; the purpose of having an auditor is still the same. The base of the process of auditing has not changed but has become more standardized through the New Auditing Standard. The world around us has changed which has led to higher requirements of the auditor; however the assignment is still the same.

As the Agency Theory implies the auditor should see to that the manager is leading the company in the direction wanted by the owners. To achieve this, the relationship between the owners, the manager and the auditor must be based on communication and can only function if there is a good cooperation. As an auditor it is important not to be manipulated by any of the other parties; it is crucial to have a professional integrity and stay independent.

Which factors are influencing the choice of making a remark or not? How does the New Auditing Standard affect it?

There are two different types of choices; clear cases and the more difficult ones. The clear cases are distinguished because they are clearly stated in the law. There are no other options than remarking. The more difficult cases are influenced by more factors. The regulation does not give any certain direction of how to act. The auditor has to consider the overall picture of the company and its interested parties. The choice of making a remark or not can be limited by the New Auditing Standard since it explains how the auditor shall act in different situations. The more difficult cases still require judgment, which can not be regulated.

The interviewees emphasize that it is *not* difficult to be objective and neutral towards the client. The authors believe that it is impossible to make choices without being subjective. As a human being, frames of references and experiences are always influencing the choices you make and it is impossible to ignore this as an auditor. The New Auditing Standard may have simplified some of the choices through a more detailed working procedure.

What are the effects of a more detailed Auditing Standard?

The main question of the thesis has now been partly answered through the sub questions above. The effects for large and small companies are different. To some extent it has led to more documentation, which in some cases is unnecessary. Cooperation is the key to an audit of high quality. Regulation is only one of the tools in the procedure, since the auditor in his/her choices is influenced by a lot of factors in the surroundings. To be able to make a good judgment it is necessary to have a proper understanding of the business and all information needed. The only way of achieving this is through cooperation. If the cooperation between the auditor, the owners, the manager and the board is not well-functioning, regulation is worthless. The independence of the auditor is important, and it is crucial that the auditor have personal and professional integrity.

If the regulation gets too complicated it might be too difficult to follow, even if that is your intension. There are always those who choose not to follow the regulation, and a new auditing standard will not change that. Regulation has no significant effect for those who have no intension to follow it; therefore quality controls are a better mean in order to augment the quality of the audit. A more detailed regulation leaves the auditors



with a narrower scope to make judgments on their own. Since all companies are different there is no template to follow while conducting the audit, therefore the audit has to be adapted to each company. The New Auditing Standard is striving to make the auditing process more standardized and the main purpose of accounting and auditing; to give a true and fair view of the company, is being lost.

7.1 Suggestions for Further Research

The authors will give suggestions for further research on the subject. While conducting the research several issues have emerged that the authors felt were of great interest and are left to be investigated.

- Since this thesis only has focused on an empirical research of the auditors' ideas, it would be interesting to investigate what effects the New Auditing Standard has had from the companies' point of view. An empirical research of how the companies apprehend the standard could be followed through.
- In addition, it would be of great interest to investigate further if the requirement for an audit should be kept or not for small companies.
- Additionally; an investigation of possible scenarios in the future would be of significant interest. What will be in the future concerning the regulation of auditing? Is it possible to have an even more strict regulation?



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Interviewees

Auditor Andersson	22.04.2005
Auditor Börjeson	22.04.2005
Auditor Carlsson	02.05.2005
Auditor Davidsson	02.05.2005
Auditor Eriksson	09.05.2005



Appendix

Appendix 1 Interview Guide (in English)

Background

- Could you briefly tell us about your position, your main assignments and how long experience you have.

General questions

- What is your opinion on the New Auditing Standard?
- Do you think that the New Auditing Standard is fulfilling its purposes? (Trust and quality)
- Have you been influenced by the New Auditing Standard?
- The New Auditing Standard has resulted in a more detailed regulation that is describing in what way the assignments should be done. What is your opinion about that?

The gap of expectation

- In what way do you think the clients' confidence is affected by the New Auditing Standard?

Responsibility

- The auditor has many interested parties to provide for! The auditing is executed with a close contact between the auditor and the company, could that affect the objectiveness of the auditor?
- Since the company is paying the auditor is it possible to be neutral?
- Could you give some examples of distinctions you make when it comes to what you are willing to sign as an auditor? When is something not OK?
- In what way do you think the responsibility of the auditor has changed?
- Is more responsibility for the auditor leading to higher quality of the auditing?

Quality

- According to your opinion; what are the crucial factors for the highest quality possible of the auditing?
- Is these factors reflected in the New Auditing Standard?
- How is quality controls executed? Give some examples.
- How are problems with distribution of an asset over time handled?

Other

- According to you, is there any other ways to improve the quality of auditing than regulation?



Appendix 2 Interview Guide (in Swedish)

Bakgrund

- Kan du berätta lite om din befattning, huvudsakliga arbetsuppgifter och hur lång erfarenhet du har.

Allmänt

- Vad är er åsikt om den nya RS?
- Tycker du att RS uppfyller sina syften? (Förtroende och kvalitet)
- Har ni påverkats av den nya RS?
- RS innebär en mer detaljrik reglering som beskriver mer hur arbetsuppgifterna ska utföras? Vad anser ni om det?

Förväntningsgapet

- Hur tror du att nya RS påverkar kundens förtroende för revisorn?

Ansvar

- Som revisor har man många intressenter att tillgodose! Revisionen sker i nära kontakt med företaget, kan det göra det svårt att ha en objektiv syn?
- I och med att det är företaget som faktiskt betalar för revisionen är det verkligen möjligt att vara neutral som revisor?
- Kan du ge några exempel på gränsdragningar som du gör vad gäller vad du är villig att skriva under på som revisor? När är något inte OK?
- Hur anser ni att revisorns ansvar har ändrats?
- Leder ökat ansvar för revisorn till ökad kvalitet på revisionen?

Kvalité

- Vad anser ni är de avgörande faktorerna för att revisionen ska få så hög kvalitet som möjligt?
- Återspeglas dessa faktorer i RS?
- Hur utförs kvalitetskontroller? Ge exempel.
- Hur hanteras periodiseringsproblem?

Övrigt

- Finns det enligt er andra sätt än genom reglering att förbättra kvalitén på revisionen?



Appendix 3 The Engagement Letter

FAR Revisionsbok (2004)

Bilaga: Uppdragsbrev (exempel)

Till styrelsen eller vederbörande representant för företagsledningen i...

Vi har fått uppdraget att utföra revision av årsredovisningen och bokföringen samt styrelsens förvaltning för (år xxxx). Vi tackar för uppdraget och bekräftar genom detta brev att vi åtagit oss uppdraget.

Vi kommer att utföra revisionen i enlighet med god revisionssed i Sverige. Det innebär att vi planerar och genomför revisionen för att vi med rimlig säkerhet skall kunna uttala oss om huruvida redovisningshandlingarna innehåller väsentliga fel. En revision innefattar att genom urval granska system och rutiner samt transaktioner och ekonomiska samband för att skaffa bevis som stödjer de belopp och upplysningar som finns i räkenskapshandlingarna. I en revision ingår också att pröva redovisningsprinciperna och styrelsens tillämpning av dem när årsredovisningen upprättas. I en revision ingår vidare att bedöma viktiga uppskattningar som företagsledningen har gjort liksom att utvärdera den övergripande presentationen i årsredovisningen. I uppdraget ingår också att lämna ett uttalande om ansvarsfrihet för styrelsen och verkställande direktören. För detta uttalande kommer vi att ta del av väsentliga beslut, åtgärder och förhållanden i bolaget.

Revisionen baseras i viss omfattning på urval samt har andra inneboende begränsningar. Detta tillsammans med de inneboende begränsningarna som finns i systemen för redovisning och intern kontroll medför oundviklig risk för att även vissa felaktiga uppgifter som är väsentliga kan förbli oupptäckta.

Utöver vår revisionsberättelse har vi för avsikt att i förekommande fall lämna följande

- Rapport avseende eventuella brister i systemen för redovisning och intern kontroll som kommer till vår kännedom.
- Etc.

Vi vill påminna om att det är företagsledningen som har ansvaret för räkenskapshandlingarna och förvaltningen och att årsredovisningen innehåller erforderliga upplysningar. Det är också företagsledningen som ansvarar för att bokföringen följer lagens krav och att intern kontroll finns, att redovisningsprinciper fastställs och tillämpas samt att företagets tillgångar skyddas. I vår revision kan vi komma att begära skriftlig bekräftelse av de uttalanden som företagsledningen gjort till oss i samband med revisionen.

Vi ser fram emot ett förtroendefullt samarbete och förlitar oss på att vi får del av den bokföring, dokumentation och annan information som vi önskar i revisionen. Vårt arvode, som vi fakturerar löpande, baseras på nedlagd tid och utlägg.

Innehållet i detta brev gäller även för kommande år om uppdraget inte avslutas, ändras eller ersätts av nytt uppdrag.

Vänligen återsänd bifogad kopia av detta brev som bekräftelse på vår överenskommelse om revisionsuppdraget.

Med vänlig hälsning
Bekräftas