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Preventing Auditing Scandals?

- An Investigation of How a Supervisory Authority Can Affect
the Behaviour of Auditors

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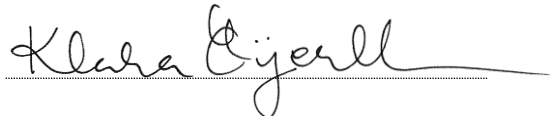
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Abstract

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Title: Preventing Auditing Scandals? – An Investigation of How a Supervisory Authority Can Affect the Behaviour of Auditors

Background and Problem Discussion: After the financial crisis in HQ Bank AB, during the autumn of 2010, an intense debate regarding the responsibility of auditors was brought forth in Sweden. The reliability of the audit profession was further questioned and the critics continued to debate whether the SSBPA and its disciplinary system were well-functioning. A supervisory authority aims to investigate, prevent and reduce auditing errors. Nevertheless, the Authority needs to act trustworthy and in the public interest to be acknowledged as satisfactory. Consequently, the supervision and disciplinary actions of the SSBPA were interesting topics for further investigation.

Aim: The aim of this thesis is to discuss whether a supervisory authority can affect the professional conduct of auditors and thereby prevent future auditing scandals. Furthermore, auditing errors and disciplinary sanctions over time will be described. Finally, it aims to reason around the behaviour of repeat offenders.

Scope: This study investigates the Swedish supervisory authority, the SSBPA, during the period 2004 to 2010.

Method: The empirical study is based on disciplinary cases collected from the website of the SSBPA. First, all cases were read and the errors committed in those cases were compiled. Further investigation was made on relapses and recidivists in the cases. The results were thereafter analysed with the frame of reference and compared with previous studies.

Conclusions: The empirical review showed that the disciplined auditors committed errors in the audit process to a large extent. The study further revealed that few recidivists existed which implies that the auditors who received a sanction were affected by it. However, the majority of the repeat offenders did not change their behaviour which may question the effectiveness of the disciplinary system. The study indicates the Authority has the power to influence the behaviour of auditors and thereby ensure audit quality. However, there seem to be areas which have to be improved in order to function satisfactory.

Suggestions for Further Studies: In order to evaluate the organisation of the SSBPA, a more in-depth investigation of the knowledge and independence of the members could be performed. To further explore the behaviour of recidivists, an extended study with interviews, could be made.

Abbreviations and Definitions

AP	Auditors of Parliament (Riksdagens revisorer)
CEO	Chief Executive Officer
EGAOB	European Group of Auditors' Oversight Bodies
EU	European Union
FAR	Professional Organisation for Authorized and Approved Auditors
GAAS	Generally Accepted Auditing Standards (God revisionsssed)
ICAI	Institute of Chartered Accountants in Ireland
IFAC	International Federation of Accountants
PEA	Professional Ethics for Accountants (God revisorssed)
SAA	Swedish Auditors Act (2001:883)
SAuA	Swedish Auditing Act (1999:1079)
SCA	Swedish Companies Act (2005:551)
SECA	Swedish Economic Crime Authority (Ekobrottsmyndigheten)
SEK	Swedish Crowns
SFSA	Swedish Financial Supervisory Authority (Finansinspektionen)
SNCCP	Swedish National Council for Crime Prevention (Brottsförebyggande rådet, BRÅ)
SOS	Systematic and Outreaching Supervision (Revisorsnämndens systematiska och uppsökande tillsyn, SUT)
SSBPA	Swedish Supervisory Board of Public Accountants (Revisorsnämnden)
STA	Swedish Tax Agency

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1 Introduction

In the first chapter, the background of this thesis, which is a media debate regarding the responsibility of auditors in their professional assignments, is described. Further on, the problem discussion and research questions are presented. Finally, the aim, scope, target group and outline of the thesis are discussed.

1.1 Background

The auditing profession is essential for an efficient financial market. Auditors operate under the laws and practices in force and convey expected requirements to the audited companies. Auditors are therefore of great importance for companies and have an extensive influence in framing the accounting. Nevertheless, accounting scandals sometimes occur and in such cases the auditor can be subject to an investigation. Such an accounting scandal was revealed in the autumn of 2010, a scandal which brought forth major consequences for the auditing profession.

On August 28th 2010, it was revealed that the Swedish bank, HQ Bank AB, was about to collapse. The Swedish Financial Supervisory Authority (SFSA), announced that the bank permission was about to be withdrawn. Just two days later, the District Court of Stockholm decided that the corporation should be put into liquidation. The incident brought forth an intense debate, in which the risks taken by the Board of Directors of HQ Bank AB were questioned. Further on, the critics considered the directors' knowledge of the bank operations insufficient, thus they were held responsible for the situation in the media. The SFSA concluded serious deficiencies in the trading operations of the company. The bank was criticized of having an overvalued trading portfolio, a capital deficit and a shortage of routines regarding internal control and risk management. Thus, the incidents resulted in an incorrect and faulty accounting.¹

To be able to continue its business, the corporation had to find a purchaser in just a few days. At a press conference on September 3rd 2010, Carnegie Investment Bank AB announced the acquisition of HQ Bank AB.² It meant the peoples' savings in the bank was now secured. However, it was the shareholders of the parent company HQ AB who were struck by major losses, as the share value declined considerably after the crisis in the subsidiary.³ The SFSA was critical against the auditor responsible for HQ Bank AB. His assignment included a review of the financial statement and the management selected by the Board of Directors and the CEO. Remarkably, the auditor had not noted any deviations in the audit report, which the SFSA considered was indicative of deficiencies in the reporting process. In order to find out whether he had made errors in his professional pursuance, the SFSA initiated an investigation and reported the auditor to the Swedish Supervisory Board of Public Accountants (SSBPA).

¹ <http://www.fi.se/Press/Pressmeddelanden/Listan/HQ-Banks-tillstand-aterkallas/>

² <http://www.carnegie.se/sv/om/Press/Pressmeddelanden/?releaseid=510294>

³ http://svt.se/2.22620/1.2131209/carnegie_koper_hq_bank

Another accounting scandal which also received considerable attention during the autumn of 2010 was the case of Prosolvias, which originally occurred 1998. This case has previously been discussed in a bachelor thesis, written by Bulić and Tapia. Notably, the responsible auditor was never reviewed by the SSBPA. However, the Authority was nevertheless interested and several questions were sent to the auditor. When the documentation of the audit was required, the auditor chose to resign his certification and retired. Since the SSBPA only can investigate the responsible auditor, the investigation could not proceed and the case was closed. Consequently, no indicative judgement from the Authority was presented.⁴ However, the Swedish Economic Crime Authority (SECA) continued to investigate the case and in 2003 a criminal charge was filed. The corporate management had previously been accused of giving a misleading image of the financial situation and revenues were incorrectly declared.⁵

The auditor was charged of gross swindle and accessory to gross swindle as an unmodified audit report was completed and the income statement was supported at the Annual General Meeting.⁶ The bankruptcy estate considered that the auditor's negligence played a crucial part in the crisis and claimed approximately 1.4 billion SEK in damages. According to the District Court of Gothenburg, the financial statements deviated from the generally accepted accounting principles and the review made by the auditor did not follow the generally accepted auditing standards (GAAS). However, no significant connection between the negligence of the auditor and the bankruptcy of the company could be found, which ultimately led to a verdict of acquittal.⁷ Since this was the first time the responsibility of an auditor in listed companies was tried in a Swedish court, the verdict was of special interest.⁸ Thus, the outcome may be used as guidance for future cases, as for example HQ Bank AB.⁹

Media continued to debate around the auditing profession. The responsibility of an auditor was discussed as well as the credibility of their review. Several articles were published during the autumn by the Swedish journal *Svenska Dagbladet* and the journalists were very critical in several aspects. They questioned the reliability of the auditing profession and also if the SSBPA was a well-functioning organisation. They pointed out previous Swedish accounting scandals, such as Skandia and Carnegie, where several members of the management teams lost their jobs, but the responsible auditors continued their employments.¹⁰ Further on, it was reported that the auditors who had received a warning by the SSBPA got a salary increase, despite the fact that compensation, in such circumstances, should be reduced.¹¹

As a result of the newspaper articles, the debate turned to focus on the responsibilities of auditors and if disciplinary sanctions imposed by the SSBPA had any effect on the career of auditors. The public trust in auditors seemed to be challenged. At the same time, the Swedish Companies Act (SCA) was revised, which included an abolishment of statutory auditing in

⁴ Bulić & Tapia (2010), p. 35

⁵ http://svt.se/2.53277/1.356005/prosolvias_uppgang_och_fall?lid=senasteNytt_611539&lpos=rubrik_356005

⁶ Bulić & Tapia (2010), p. 29f

⁷ Ibid.

⁸ <http://www.aktiespararna.se/artiklar/Opinion/Prosolvias-revisor-frias/>

⁹ <http://www.va.se/nyheter/2010/10/15/prosolviadom-kan-visa-vagen-for-hq/>

¹⁰ http://www.svd.se/naringsliv/nyheter/revisorn-klarar-sig-alltid-undan_5316347.svd

¹¹ http://www.svd.se/naringsliv/nyheter/revisorer-nas-loner-hojs-trots-varning_5578767.svd

most of the Swedish limited companies.¹² Reviews of the audit profession are a recurring feature when accounting and auditing scandals occur. The SSBPA therefore has to fulfil two tasks in order to maintain the reputation of the auditing profession: to show and re-establish the knowledge and strength of auditors and to prove that the Authority functions satisfactory.

1.2 Problem Discussion

Auditing is a quality control which ensures that correct information about a company reaches the stakeholders and the market. Financial markets require correct information to function properly, so if the output is not viewed as confident, the financial market could fail. Society therefore needs someone trustworthy to review the information in the public interest.

The Eight Directive of the EU Commission concerns auditing and auditors with the purpose of harmonising auditing and supervision of auditors in the EU. The directive argues the investigations and sanctions contribute to prevent and reduce deficiencies in the Statutory Audit.¹³ The member countries of the EU would provide a system to ensure quality and public control of auditors with regard to the directives presented. The presence of public supervision alone can have a contraceptive effect and lead to a greater compliance with the law.¹⁴

In Sweden, the oversight is conducted by the SSBPA, a government authority, with the task of satisfy the demand of an audit body of high quality.¹⁵ When the SSBPA was established, the Swedish Government argued that the importance of a trustworthy organisation as supervision was in the public interest. The purpose of a supervisory authority is to investigate, prevent and reduce the amount and magnitude of auditing errors with sanctions as enforcements. The SSBPA therefore plays a key role in preventing economic crimes and developing quality in the auditing branch.¹⁶

Supervision can be performed either actively or passively. When an authority tries to prevent future problems by working outward and identify problems on own initiative, an active supervision is conducted.¹⁷ In the SSBPA, the Systematic and Outreaching Supervision (SOS) function is an example of active supervision. Passive supervision is conducted only where warranted, through notifications or public attention, but is not as effective in preventing auditing scandals. The supervision undertaken by the SSBPA, a part from the SOS function, is passive and therefore has a limited possibility to be customized to fit the demand.¹⁸

In 1999 and 2000 the SSBPA was reviewed by the Auditors of Parliament (AP), an authority with mandate to review government functions, as an evaluation of the new authority.¹⁹ The investigation resulted in a report in which the AP argued that the work of the SSBPA was not satisfactory. Limited resources as well as shortcomings in the competence of the staff

¹² <http://www.regeringen.se/sb/d/13040/a/144319>

¹³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:157:0087:0107:EN:PDF>

¹⁴ <http://www2.riksdagen.se/rr>

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

prevented the SSBPA from performing a sufficient supervision of auditors. Further on, the AP found that the main part of the supervision was conducted in the more ineffective passive way, and that the active supervision in the SOS function, was a very small part of the organisation.²⁰

It is important that a supervisory authority is functioning properly in the sense that audit quality can be ensured. The effect would otherwise be extensive; the financial information produced by the company would not be viewed as reliable. Investors, who partly base their decisions on this information, would not be able to make correct assessments of the financial profit and risk with the effect of failing financial markets. As society could not rely on auditors when they scrutinise the work of managements, the possibility of cheating and fraud could increase.

Recent accounting scandals show that there are still deficiencies in the supervision of auditors and prevention of auditing errors. One also may question the effect of disciplinary sanctions through the presence of repeat offenders. Sanctions imposed by a supervisory authority should affect the actions of auditors by influencing their professional behaviour. A reason for the deficiencies might be that auditors do not have enough *respect* for the imposed sanctions, thus the sanctions are not serious enough.

In the report of the review, the AP presented results of several interviews that had been held with working auditors concerning the effect of imposed sanctions. The respondents from small firms argued that they were not affected by a deterrent sanction and that the system was not effective since the clients were never informed of the sentence and the auditor could continue working as nothing had happened. Auditors working for large firms argued, on the other hand, that the sanctions were working as an effective deterrence and that a warning would be viewed as a very serious issue. Another study showed that formal sanctions did not work as deterrence against auditing errors.²¹ The researchers also referred to a previous study by Hwang and Schneider from 1996 and argued that sanctions only are effective in cases of very serious ethical violations.

Previous research with little evidence of the effect of disciplinary sanctions as an enforcement, the critique by the AP in their report, and the public interest makes the supervision and disciplinary system of the SSBPA a very interesting topic to investigate.

²⁰ <http://www2.riksdagen.se/rr>

²¹ Shafer, Morris & Ketchand (1999), p. 97

1.3 Research Questions

To investigate this issue further, the principal research question for this study has been formulated as:

- How can a supervisory authority affect the professional behaviour of the auditor and thereby ensure quality in auditing?

To be able to answer the principal question, two sub-questions were framed as following:

- Which trends in the disciplinary cases can be inferred between two periods of time, if any?
- Are recidivists a major problem and can a different behaviour of the auditor be seen in the relapse?

1.4 Aim

The aim with this thesis is to discuss whether a supervisory authority can affect the professional conduct of auditors and thereby prevent future auditing scandals. Additionally, the thesis aims to describe differences in auditing errors and disciplinary sanctions over time. Finally, the authors aim to reason around the behaviour of auditors that are committing repeated offences.

1.5 Scope

The research area of this thesis has been limited due to restrictions in time and scope of the presentation. In the EU, several national supervisory authorities with the purpose to oversee auditors are present. The oversight authorities are members of the European Group of Auditors' Oversight Bodies (EGAOb) whose purpose is to coordinate the national boards.²² This study will limit the research area to Sweden and the oversight authority, the SSBPA.

1.6 Target Group

The target groups of this thesis are mainly the SSBPA, certified auditors and others with interest in the aim and subject area. A review of whether disciplinary sanctions could affect the professional behaviour of an auditor can be of interest for the SSBPA. As the study will include a review of committed wrongdoings, the results will demonstrate the most critical areas in the audit, which may be interesting for the SSBPA as well as practicing auditors. The results can thus provide an indication whether the supervisory system of the SSBPA is well-functioning or not.

²² http://ec.europa.eu/internal_market/auditing/egaob/index_en.htm

1.7 Outline

The selected outline of the thesis is described below.

Chapter 2: Previous Studies

This chapter introduces previous studies within the subject area of this thesis.

Chapter 3: Frame of Reference

This chapter includes frame of reference, which describes norms and theories essential for understanding the subject area and the discussion of the results.

Chapter 4: Method

This chapter describes chosen methods for the thesis and the empirical study.

Chapter 5: Empirics and Analysis

This chapter provides the results of the empirical study. The results are further analysed and discussed with related concepts from the frame of reference and previous studies.

Chapter 6: Conclusions and Final Discussion

This chapter presents conclusions drawn from the results as well as answers to the research questions. A final discussion is further outlined. Finally, practical implications and suggestions for further studies are discussed.

2 Previous Studies

In this chapter previous studies relevant for the thesis are introduced. At first, the dissertation of Carrington, which is of great importance for this study, is defined. Consequently, a detailed review of essential results and conclusions is described. Ultimately, further researches with interesting features are outlined.

2.1 Framing Audit Failure – Process and Professional Wrongdoings

In 2007, the Swedish doctoral student Thomas Carrington at the University of Stockholm published the dissertation *Framing Audit Failure: Four studies on audit quality discomforts*. The dissertation consists of four studies from different perspectives with the shared aim to study audit quality discomforts. The aim of this thesis is partly to study whether any differences in disciplinary actions can be seen between two selected time periods. In order to answer this research question, this thesis relates to Carrington's second study which deals with the work of the SSBPA. Consequently, the results of Carrington's study will be presented below to be able to compare his results with the outcomes of this study.

In Carrington's second study, *The Process and the professionals: an analysis of the demands on a sufficient audit*, an investigation of a Swedish authority was performed. According to the author, two major aspects have to be combined in a sufficient audit: the audit process should follow the exemplary protocols and the behaviour of auditors needs to agree with professionalism.²³ Therefore, the aim of his study was to “analyse the demands on a sufficient audit”.²⁴ Carrington chose to concentrate the analysis on the SSBPA. The SSBPA is responsible for investigating whether the conduct of an auditor deviates from good practice and could lead to disciplinary actions. Carrington studied if appropriate audit quality was achieved in particular cases and whether the SSBPA considered the audit to be sufficient enough. Thus, his research question was formulated as: “How does the Swedish Supervisory Board of Public Accountants frame a sufficient audit?”²⁵

To investigate whether the SSBPA provide a framework of satisfactory audit, a review of disciplinary actions between the years of 1995 – 2003 was completed. Carrington reviewed 366 cases of disciplinary actions, issued by the SSBPA, which represent all published cases during the time period. In twelve of these cases, no errors were found and thus no sanction was imposed, which means 354 cases were used in the analysis. In order to analyse if any resemblances or deviations could be seen between the cases, Carrington allocated the cases into different categories based on the error committed.

²³ Carrington (2007), p.90

²⁴ Ibid, p.90

²⁵ Ibid, p.91

2.1.1 Categories of Wrongdoings

In Carrington's empirical study, the disciplinary cases were divided into two main categories and nine subcategories. The categories were prepared through careful consideration and were based on the errors made in the reviewed cases, i.e. errors the SSBPA considered to be inaccurate and that the auditor could be prosecuted for.

Table 1 - Wrongdoings mentioned in the SSBPA's disciplinary cases

Process wrongdoings	Professional wrongdoings
<ul style="list-style-type: none"> • Error of judgement or execution when performing the audit • Insufficient documentation • Insufficient or inadequate planning and risk assessment • Failure to report suspicion of crime 	<ul style="list-style-type: none"> • Lack of independence • Shortcomings in the audit firm organisation • Failure to cooperate with, or resist, the SSBPA's investigation • Not registered with, or paid the fee to, the SSBPA. • Unprofessional conduct

Source: Carrington (2007)²⁶

The category *process wrongdoing* involves failures committed in the audit construction. The auditor has not performed the audit satisfactory in relation to the legislative rules and guiding standards. Thus, the auditor has failed to satisfy the demands of the auditing process, which consists of planning, auditing and reporting.

Error of judgement or execution when performing the audit: This type of error is made in the auditing process and is closely related to the accepted work procedures. Examples of errors in this category are the auditor accepting an accounting method not legally permitted, or the auditor fails to attain the demands given by the GAAS.

Insufficient documentation: If one should be able to evaluate the work and performance of an auditor the investigator must base the conclusions on extensive documentation. Such documentation is also necessary as evidence if the auditor has to defend himself against any disciplinary charges. Failure to fulfil this demand is another error an auditor can be prosecuted for.

Insufficient or inadequate planning and risk assessment: The auditing process begins with a detailed planning, assessing the risk of the audit object. If this planning is insufficient, or if the auditor does not take into account the company's specific circumstances in the assessment, the auditor can be indicted for insufficient or inadequate planning.

Failure to report suspicion of crime: According to the SCA §§9:42 – 44, an auditor must report any suspicion of crime to the authorities without any hesitation. If auditors do not report this complaint, they violate the law, which also constitutes as an error, and they could

²⁶ Carrington (2007), p. 109

therefore be charged in a disciplinary case. The error is classified as a process error even though it does not explicitly belong to the auditing process.

The category *professional wrongdoings* contains errors committed in the professional conduct of auditors. It is the professional appearance and behaviour of the auditor that are questioned, not circumstances around the signing of the audit report.²⁷ The audit might be impeccably executed but will not be accepted since the auditor has not acted in a desirable manner.

Lack of independence: One of the most debated and discussed feature of auditing is the requirement of independence of the auditor. There are several factors, described in a recommendation from the EU Commission, which increase the risk of a dependent auditor.²⁸ Financial, business or employment relationships and self-review are some factors affecting perceived independence and thus the professional behaviour of the auditor. Lack of independence is an error which affects the appearance of the auditor but does not influence the audit process, and is thus considered a professional error.

Shortcoming in the audit firm organisation: Since a professional conduct is as important for an auditor as the audit itself, perceived high ethics is vital in the audit firm. An example of errors classified in this category is an audit firm practicing without the mandatory insurance issued by the SSBPA.

Failure to cooperate with, or resist, the SSBPA's investigation: When the SSBPA performs an investigation within the SOS function or in a disciplinary case, the cooperation from the auditor in question is almost necessary. If the auditor resists cooperating with the SSBPA, it violates the professional ethics for accountants (PEA) and is thus classified as an error.

Not registered with, or paid the fee to, the SSBPA: Another behaviour the SSBPA considers unprofessional is when the auditor fails to handle the administrative requirements properly. The errors in this category are more examples of errors not affecting the audit itself but the professional appearance of the auditor.

Unprofessional conduct: A professional behaviour of auditors is indeed important and something the SSBPA considers as serious. The conduct of the auditor can be unethical in other ways than those mentioned above. If an auditor acts unprofessionally, and the behaviour is serious enough, the auditor can be charged with unprofessional behaviour even if the actions do not fall into the categories above.

2.1.2 The Results and Conclusions of the Study

In order to evaluate the results from the study, Carrington created a table which presents all the disciplinary cases, errors committed and the sanctions imposed.

²⁷ Carrington (2007), p.104f

²⁸ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32002H0590:EN:HTML>

Table 2 - The number of disciplinary cases (1995 – 2003) mentioning a specific wrongdoing broken down on type of punishments

Wrongdoings	Withdrawal	Warning	Reminder	All cases
PROCESS FAILURE	31 (13%)	183 (75%)	30 (12%)	244 (69%)
Error of judgment or execution when performing the audit	31 (13%)	175 (76%)	26 (11%)	232 (66%)
Insufficient documentation	27 (24%)	77 (68%)	9 (8%)	113 (32%)
Insufficient or inadequate planning and risk assessment	10 (36%)	17 (61%)	1 (3%)	28 (8%)
Failure to report suspicion of crime	0 (0%)	1 (3%)	0 (0%)	1 (0.3%)
PROFESSIONAL FAILURE	42 (20%)	118 (55%)	54 (25%)	214 (60%)
Lack of independence	24 (16%)	90 (59%)	39 (25%)	153 (43%)
Unprofessional conduct	21 (30%)	34 (48%)	16 (22%)	71 (20%)
Shortcomings in the audit firm organization	9 (43%)	10 (48%)	2 (9%)	21 (6%)
Failure to cooperate with, or resist, the SSBPA's investigation	7 (70%)	3 (30%)	0 (0%)	10 (3%)
Not registered with, or paid the fee to, the SSBPA	1 (17%)	3 (50%)	2 (33%)	6 (2%)
All cases	45 (13%)	230 (65%)	79 (22%)	354 (100%)

Source: Carrington (2007)²⁹

As a disciplinary case can contain different types of wrongdoings, several categories could be involved in every particular case. This explains why the divisions do not sum up to 100 per cent of the total cases. The table shows, for example, that process wrongdoings were present in 244 cases which represented 69 per cent of the total cases. When dividing the main category into the different classifications, further conclusions were made. In 232 of those cases an *error of judgment or execution when performing the audit* was involved. *Insufficient documentation* was present in 113 cases.

Same procedure could be performed when analysing the professional wrongdoings. The results showed the main category was involved in 214 of 354 cases, representing 60 per cent. According to the table, *lack of independence* was the most frequently category, as it was present in 153 cases. Thereafter, *unprofessional conduct* followed with 71 cases. Withdrawal of certification was imposed in 45 cases, or 13 per cent of all cases. 230 cases resulted in a warning, which thus was the most common sanction used, whilst a reminder was imposed in 79 cases. Furthermore, the table shows to which extent the categories have been involved in the sanctions imposed.

Although the process and professional aspects of an audit are essential for the study, Carrington found it relevant to also include the disciplinary sanctions imposed as a result of

²⁹ Carrington (2007), p. 227

the wrongdoings. When the SSBPA has to determine punishments for auditors who have committed errors, there are three possible sanctions which can be imposed; reminders, warnings or withdrawals of approval or authorisation.³⁰ Depending on how severe the error is considered to be, the auditor receives an appropriate sentence.

When an auditor receives a reminder or a warning there are no economic consequences which however occur when a withdrawal of approval or authorisation is imposed. Instead, the auditors face the shame of not having produced a sufficient audit. Carrington considers his own division of the sanctions has a more interesting aspect. The economic consequences are affecting the career of the auditor while shame, which includes both reminders and warnings, has no similar affect. As Carrington found it interesting to examine how the SSBPA issues the sanctions, further divisions of the disciplinary actions were made:

Table 3 - Types of wrongdoings and punishment mentioned in the cases (1995 – 2003)

	Economic consequences	Shame	Total
Process	3	137	140
Process and professional	28	76	104
Professional	14	96	110
Total	45	309	354

Source: Carrington (2007)³¹

The author found significant differences when analysing the sanctions issued by the SSBPA. The results show process wrongdoings were more common than professional wrongdoings, although there is only a slight difference. This means the executions of the auditors, what they have or have not done in their assignments, are important to the Authority, but also professionalism is essential for a sufficient audit.

Another interesting conclusion is that withdrawal of the certification was not a common sanction as it only represents a minor proportion of all the disciplinary actions. Withdrawals were only imposed in 3 cases when process failures were the underlying cause. Therefore, shame was the most common sanction auditors faced when process errors were committed. At the same time, professional wrongdoings were present in almost every case where economic consequences were executed. Though, in some of those cases process wrongdoings was also an issue.

Moreover, the majority of sentenced auditors received either warning or reminder and had to bear the punishment of shame. Thus, shame was the predominant sanction as it was imposed in 309 cases, which represents 87 per cent. Additionally, when analysing the table, process wrongdoings was the issue in 213 cases, or 69 per cent, when a sanction of shame was imposed. Consequently, this was the dominant main category regarding this matter.

³⁰ <http://www.revisorsnamnden.se/rn/tillsyn/disciplinarenden.html>

³¹ Carrington (2007), p. 111

Carrington concluded that a sufficient audit can be accomplished in two different ways. An audit is considered satisfactory when the SSBPA has not remarked on any deviations. As no detailed list of what a sufficient audit should include exists, the Authority only remarks on discovered defects. An audit which passes an investigation can therefore seem to be satisfactory enough, but could even be considered sufficient when the auditor do not lose the certification through a disciplinary sanction. Since sanctions of shame do not have economic consequences, the auditor's career will not be affected to any great extent. Finally, the audit procedure has to involve the aspects an investor requires to ensure trust in the audit reports. As Carrington expressed, stakeholders must have comfort within the audit which is all about being confident with the statement of accounts. If the SSBPA has no faith in the auditor, it will be difficult to argue that the underlying evidence of the audit report is reliable. Therefore, the trustworthiness of the auditors is essential when it comes to investigating an audit.

2.2 Previous Research Concerning Disciplinary Actions and Sanctions

Several previous studies have investigated disciplinary actions of supervisory authorities and imposed sanctions. Considering the aim of this thesis, the following studies have been selected with interesting aspects and results to take into account. Initially, an investigation concerning disciplinary actions in Ireland is described. Finally, a study regarding effects of formal sanctions is presented. Since no research involving repeat offenders was found, this area has unfortunately not been dealt with.

2.2.1 Disciplinary Cases in Ireland

In *Professional accounting bodies' disciplinary procedures: accountable, transparent and in the public interest?*, the authors perform a review of disciplinary cases within the former Institute of Chartered Accountants in Ireland (ICAI). The supervision in Ireland is organised somewhat differently in comparison with Sweden. The cases reported are passing through a series of functions which decide if the case should reach the disciplinary committee or not. The cases settled in these functions are not made public and the authors found the information regarding the cases available very poor.³² The ICAI has a number of sanctions available which can be summarised in reprimands, fines or membership exclusion.

The aim of the study was to investigate whether ICAI acted in the public interest, worked with transparency and accountability and assessed all the disciplinary cases equally.³³ The review included 123 disciplinary cases between the years of 1990 and 1999. The results of the review showed that the most common offence in Ireland, failure of members to hold or inform of adequate professional indemnity insurance, concerned approximately 25 per cent of the cases. Violations of auditing standards were the second most common error and lack of independence the third. Close to 30 per cent of the disciplinary cases involved auditors committing more than one error.³⁴ Different types of reprimands were the most common sanctions imposed, as 66 per cent of the cases resulted in the same. Furthermore, 73 cases led to a fine, alone or in conjunction with other sanctions, while 26 auditors, or 21 per cent,

³² Canning & O'Dwyer (2001), p.736f

³³ Ibid, p. 734

³⁴ Ibid, p. 738

received a punishment which could be compared to the Swedish withdrawal.³⁵ The authors also tried to investigate if the ICAI imposed the same sanction for the same offence or whether inequalities in the verdicts were found. The empirical research found differences in the decisions, but as information regarding the disciplinary cases was relatively poor, no reliable conclusions could be made.³⁶

2.2.2 The Effect of Formal Sanctions

In the article *The Effect of Formal Sanctions on Auditor Independence* the author performed a study to investigate effectiveness of formal sanctions. The study examined auditors' perception concerning the efficiency of risk for legal actions, disciplinary actions by professional bodies and negative peer-review results as deterrence against *aggressive reporting*.³⁷ Although the study focused on the effect on independence of the auditor, the study provides important insights which can be used in other areas of professional behaviour.

The authors formed a survey model to map the ethical behaviour of auditors and thereby reject, or not reject, three stated hypotheses: "H1: Auditors' behavioural intentions will be influenced by the perceived likelihood of formal sanctions, H2: Higher levels of moral intensity will increase the perceived likelihood of sanctions, H3: Higher levels of moral intensity will decrease the perceived ethical acceptability of aggressive reporting."³⁸ The survey was made on members of the American Institute of Certified Public Accountants and consisted of responses from 323 auditors. The auditors conducted a short case which consisted of a typical ethical dilemma concerning client pressure. The authors further varied the moral intensity by changing the financial value of the error at starting point.³⁹

After statistical computation the authors found differences in the perceived effectiveness of different types of formal sanctions. The risk of disciplinary actions by a professional body did not seem to be considered effective and therefore not useful as deterrence of unethical behaviour. The other sanctions, risk of legal action and negative peer-review results, were yet perceived as effective. Hypothesis 1 had, however, mixed support, but the second and third hypothesis had high levels of significance. Variances in the moral intensity of the case were found to strongly influence the behaviour of the auditors.⁴⁰

Shafer, Morris & Ketchand also referred to a previous study by Hwang and Schneider from 1996 as support for the findings. Their study investigated the influence of risk of disciplinary action by supervisory boards on ethical assessments made by auditors. Their study concluded that the disciplinary actions only were efficient as deterrence when the behaviour consisted of severe breaches of the profession's ethical codes.⁴¹

³⁵ Canning & O'Dwyer (2001), p. 739

³⁶ Ibid, p. 741

³⁷ Shafer, Morris & Ketchand (1999), p. 85

³⁸ Ibid, p. 90f

³⁹ Ibid, p. 91f

⁴⁰ Ibid, p. 97

⁴¹ Ibid, p. 87

3 Frame of Reference

In this chapter some key concepts are discussed and defined. The chapter is constructed into two areas: norms and theories. The presented norms concern auditing, auditors as well as regulation and supervision of the profession. The latter part handles theories such as theory of trust and institutional theory.

3.1 Auditing

Auditing is the process of independently reviewing and assessing the financial information and management of a company to ensure that trustworthy information reaches the stakeholders.⁴² In the SCA of 1895, the first legislation concerning a statutory audit for limited companies was adopted.⁴³ Statutory auditing became mandatory for all limited companies in 1987 (1983 for newly formed companies). In November 2010, the statutory audit was abolished for *small companies*. The SCA §9:1 states that companies with a turnover of a maximum of 3 million SEK, no more than three employees and a maximum of 1.5 million SEK in total assets classifies as small.

3.1.1 Audit Quality

There is no generally accepted definition of what *audit quality* is. The interpretation is also affected by the role of the analyst: if it is an internal or external stakeholder. A study by Warming-Rasmussen & Jensen determined what external users perceive as audit quality. The opinion of external users could be divided into different dimensions based on the perceptions of the respondents.⁴⁴ The dimensions principally consisted of ethical aspects of auditors as independence and competence. An interesting discovery was that the respondents did not easily separate the perception of the audit quality and the perception of the auditor himself.⁴⁵

Menon & Williams also found that the perception of the auditor was important when evaluating the term audit quality. They argue that it is the user of the financial information and its perception of the auditor which is important. The term audit quality should therefore be replaced with the term audit credibility to illuminate the importance of user perception.⁴⁶ Furthermore, audit quality was defined as “an observable characteristic of an audit firm that is perceived by investors as an indication of professionalism and honesty in performing the audit.”⁴⁷

DeAngelo, on the other hand, did not focus on the perception of the audit, but defined audit quality in mathematical terms. Audit quality is measured as the probability of two features occurring: the probability of discovering an accounting error and the probability of the auditor

⁴² FAR (2006), p. 19

⁴³ Sjöström (1994), p. 1

⁴⁴ Warming-Rasmussen & Jensen (1998), p. 77

⁴⁵ Ibid, p. 77

⁴⁶ Menon & Williams (1991), p. 314

⁴⁷ Bachar (1989), p. 218

reporting the error.⁴⁸ The probability of accounting error being discovered is affected by the *technological capabilities* of the auditor, i.e. skill and knowledge used by auditors in the auditing process. The likeliness of reporting the error depends in turn on the independence of the auditor. Other researchers state that this probability is unable to measure as it cannot be observed.⁴⁹ They ascertain that audit quality constitutes of two variables: the competence as well as the independence of the auditor. The establishment therefore supports the view in which audit quality depends on these components.

3.1.2 Generally Accepted Auditing Standards

The GAAS contain rules on how an audit shall be performed. According to the Swedish Auditing Act (SAuA) §5, the auditor shall “analyse the annual report and accounts of the company and administration by the management. The examination shall be as detailed and comprehensive as generally accepted auditing demands”. A similar description is found in the SCA §9:3. The international auditing standards of the International Federation of Accountants (IFAC) have been interpreted by FAR. When an audit is performed according to these standards, it is also considered to comply with the GAAS.

In order to perform an audit in an appropriate manner, a lot of knowledge and experience is required. The audit process consists of three stages: the planning stage, the review and finally the report stage where the auditor presents the results from the previous stages. Before accepting an assignment, the auditor must plan the audit in detail and gather the necessary information to proceed. The auditor is required to have a deep understanding of the corporate operations to be able to notice the potential risks which must be taken into consideration.⁵⁰ In the planning process the auditor has to, due to time and economic restraints, determine audit areas based upon the risk and substantiality of each company.⁵¹ Once the work schedule of the audit has been established, the review can begin. The purpose with the review is to obtain sufficient evidence to support the conclusions which ultimately lead to the statements in the audit report.⁵² In the review stage, the auditor inspects these areas with two review methods: a substantive testing or an audit of controls.⁵³ During the review, it is important to document the work since the documentation is the base of the audit report presented.⁵⁴ In the audit report, the auditor has to consider whether the financial statements complies with current legislation and if the corporate management has operated in an exemplary manner.⁵⁵

⁴⁸ DeAngelo (1981b), p. 186

⁴⁹ Ruiz-Barbadillo, Gómez-Aguilar, De Fuentes-Barberá & García-Benau (2004), p. 597

⁵⁰ FAR (2006), p. 36

⁵¹ Ibid, p. 33ff

⁵² Ibid, p. 64

⁵³ Ibid, p. 61

⁵⁴ Ibid, p. 74ff

⁵⁵ Ibid, p. 94

3.2 Auditors

When statutory audit was introduced, the law had no explicit demands of the competence of the auditor since no certified auditors existed.⁵⁶ Nowadays, auditors have to be approved or authorised since the requirement of authorised auditors was legislated in the SCA of 1944.⁵⁷ Rules concerning certified auditors can be found in the Swedish Auditors Act (SAA).

3.2.1 Professions

A profession can be defined as having powerful knowledge, is self-regulated, has ethical codes, is exercising disciplinary control over its members and, finally, is supposed to act primarily in the public interest.⁵⁸ Further, they have social status and a distinctive culture.⁵⁹ The knowledge possessed by the profession is necessary for a functioning society since it affects welfare, markets, distribution of wealth, risk assessment and the people within it.⁶⁰ The auditing profession has become more powerful and important as a result of the development of modern society and the evolvement of financial markets with increasing demand for reliable information.⁶¹

“One of the most important tasks in the traditional role of an auditor is to, in simplified terms; verify to the outside world that the accounting of the company is correct.”⁶² The statement of FAR clearly emphasises the importance of the public interest for the auditor. It requires the professionals to put the public interest before their private and in exchange get monopoly and self-control over their members.⁶³ The public interest can be defined as an incentive to protect the interests of clients and of third parties with interests in the work of the professional. It is protected by the supervision and prevention of incorrect behaviour of the profession members.⁶⁴

The professions define norms and values, which the profession has to comply with, through ethical codes. The code includes desirable features of members, moral rules, ideas, principles and appropriate behaviour and conduct, in the professional role and towards the public.⁶⁵ Through membership in the profession, the professional has agreed to obey and act according to the norms and values in the code of conduct.⁶⁶ Ethical code becomes a form of social control since the professional will be excluded from the membership if not obeyed. Since the professions are self-regulated and acts in the public interest the compliance is in the end a matter of trust.⁶⁷

It has been argued that the professional codes of ethics are not used as a mean for protecting the public interest but as a camouflage to pursue the profession’s self-interest or at least

⁵⁶ <http://www.regeringen.se/content/1/c6/10/21/24/04afd0c4.pdf>

⁵⁷ Sjöström (1994), p. 1

⁵⁸ Barber (1983), p. 135f, Mitchell, Puxty, Sikka, & Willmott (1994), p. 39

⁵⁹ Parker (1994), p. 508, Lee (1995), p. 48

⁶⁰ Brien (1998), p. 391, Barber (1983), p. 133, Mitchell, Puxty, Sikka, & Willmott (1994), p. 39

⁶¹ Barber (1983), p. 154

⁶² FAR & Svenska Civilekonomföreningen (1980), p. 123

⁶³ Sikka, Willmott, & Lowe (1989), p. 48

⁶⁴ Parker (1994), p. 509

⁶⁵ Ibid, p. 508

⁶⁶ Brien (1998), p. 404

⁶⁷ Ibid, p. 404, Parker (1994), p. 510

interests of a selected segment.⁶⁸ The private interest can be defined as an incentive to protect the social status, political power and influence of the profession and its members, achieved with the use of ethical codes.⁶⁹ The ethical codes intended to reduce inequalities in society actually preserve these inequalities by recognising privileges to the profession in their private interest.⁷⁰ Parker argued though, not denying the existence of a private interest, that the public and private interests not necessarily are mutually exclusive and one can be a prerequisite for the other. Code of ethics, used as a camouflage for private interest, has nevertheless an extensive effect on professional behaviour and thereby also, to some extent, serves the public interest.⁷¹

As the profession controls memberships, certifications and behaviours, it is considered to be self-regulated.⁷² The purpose of the disciplinary process is to investigate malpractice of profession members and to impose formal sanctions in the public interest against misbehaviours and unethical conduct.⁷³ Untrustworthy auditors and incorrect audits cost hundreds of millions of dollars and it is therefore important to ensure that the profession acts in an appropriate manner.⁷⁴ Certification and registration of auditors are a few ways of caring for the public interest and reducing the frequency of inappropriate auditors.⁷⁵ The disciplinary process and formal sanctions, working as to misdemeanours and encouragement to comply with ethical codes, has also a symbolic function to protect the perception of the responsiveness of the profession.⁷⁶

3.2.2 Independence

In order to achieve high confidence in the Swedish auditing profession, legislation provides several restrictions for the industry to follow. The SAA contains rules concerning independence and defines situations when auditors should resign from their assignment, whilst the SAuA clarifies situations causing conflicts of interest. As an information asymmetry between the business management and shareholders exists, auditor independence is essential for public trust and assists to validate the quality of the financial reports.⁷⁷ The auditor is an external and independent party and the statements will therefore increase the reliability of the financial information. Since audit quality cannot be determined by the stakeholders, the reputation of the auditor will partly serve as basis for the judgment.⁷⁸

Independence can be divided into two different aspects: independence *in fact* and independence *in appearance*.⁷⁹ When independence in fact is achieved, the auditor's "attitude of impartiality and objectivity" will be reviewed.⁸⁰ Further on, the evaluation will focus on the

⁶⁸ Lee (1995), Mitchell, Puxty, Sikka, & Willmott (1994), Sikka, Willmott, & Lowe (1989)

⁶⁹ Parker (1994), p. 509

⁷⁰ Ibid, p. 508

⁷¹ Ibid, p. 523

⁷² Brien (1998), p. 396

⁷³ Mitchell, Puxty, Sikka, & Willmott (1994), p. 41

⁷⁴ Barber (1983), p. 154

⁷⁵ Lee (1995), p. 52f

⁷⁶ Parker (1994), p. 516

⁷⁷ Krishna Moorthy, Seetharaman & Saravanan (2010), p. 96

⁷⁸ Ibid, p. 96

⁷⁹ Carrington (2010), p.186

⁸⁰ Richard (2006), p. 156

ability of the auditor to produce statements of financial reports without being affected by features which otherwise could affect the professional conduct.⁸¹ Thus, even if an auditor is independent in fact, some situations could bring distrust by the public as the auditor does not appear independent. In such cases, the stakeholders do not rely on the financial information. When the opposite situation is at hand and the auditor is not independent in fact, the trustworthiness of the judgment and impartiality can be revealed by the independence in appearance.⁸² In order to be seen as independent in appearance, the conduct of the auditor must be perceived as independent. Therefore, the auditor has to avoid situations which otherwise could question his professionalism. DeAngelo further defines independence as the probability that an auditor will report a discovered breach.⁸³ Since the information would cause bad publicity for the reviewed company, the auditor must thus have certain incentives in order to reveal the information. As auditor independence could generate benefits for both the auditor and the client, there could be incentives to construct an arrangement whereby both parties share benefits.⁸⁴

3.2.3 Professional Ethics for Accountants

The PEA contains rules concerning the professional conduct and ethical behaviour of auditors. The SAA 19§, states that “an auditor must observe the PEA”. Furthermore, an auditor shall follow the GAAS and guiding recommendations.⁸⁵ Consequently, professional behaviour is expected. A high level of competence among auditors, which is maintained through advanced education and practical experience, is a contributing factor to build trust.⁸⁶ Independence and confidentiality are two other examples of areas which must be taken into consideration.⁸⁷

To be able to fulfil the requirements of independence, rules regarding conflict of interest are stated in the SCA §9:17. The rules express inter alia that auditors are not allowed to own shares in client companies, cannot participate in the company management and must not support the company’s book-keeping. It also describes rules concerning family relationships and rules of debt to the company. Furthermore, objectivity in statements and impartiality are required in professional ethics of auditors.⁸⁸ The rules concerning duty of confidentiality are described in the SCA §9:41 as well as the SAA §26. It implies that the information revealed during the audit process shall not be disclosed. The confidentiality brings out an opportunity for the auditor to examine all the necessary information, and thereby be able to perform the work.⁸⁹ The revised company can by these means be assured the company secrets are not passed on.

⁸¹ Carrington (2010), p.186f

⁸² Ibid, p.186f

⁸³ DeAngelo (1981a), p. 116

⁸⁴ Ibid, p. 117

⁸⁵ FAR Förlag (2006), p. 110

⁸⁶ Ibid, p. 121

⁸⁷ Ibid, p. 113

⁸⁸ Ibid, p. 113

⁸⁹ Ibid, p. 119

3.3 Regulation and Supervision of the Profession

In order to encourage ethical behaviour in the professional conduct, governments implement either self-regulation or statutory control to handle the issue. By doing so, unethical behaviour can be defined as well as condemned and disciplined through imposed sanctions. The government must satisfy different requirements from stakeholders and is facing the challenge of establishing an appropriate regulation and supervision.

3.3.1 Self-Regulation versus Statutory Regulation

When regulating ethical behaviour, self-regulation can be an appropriate alternative as several benefits have been noted. Firstly, the regulations can be customised with a particular organisation in mind and include desirable cultural features. Secondly, as the organisation will bear the cost, it will entail incentives for efficiency. Finally, self-regulation can more widely identify the causes of problems as members of the profession are more familiar with the subject area and thereby know what to examine.⁹⁰ Codes of ethics often get a significant role in professions.⁹¹ However, individuals will not immediately become ethical by the existence of ethical standards, which can explain why successful effects not always are brought. On the other hand, if the codes were effectively enforced, any breach of the code would ultimately be equal to violations of the law.⁹² According to Barber, “if self-regulation worked very well in the profession, it would produce high standards of trustworthiness...”⁹³ This approach is also followed by Canning and O’Dwyer, who stated that independence and actions in the public interest is essential to be able to continue self-regulation.⁹⁴ The challenge is therefore to create a system of norms and ethical codes, and finally to apply the benefits that self-regulation can provide to a community.

Statutory regulation can be an option when the profession has proven itself untrustworthy. Thereby, the government could enter if the self-regulation fails and ensured that the preferences of the legislator are followed. Specific details and instructions can thus prevent undesirable interpretations. Since legislation convert an inappropriate conduct into an illegal behaviour, the government could select some cases of crime in order to point out which wrongdoings that will result in severe punishments. Earlier theorists further implied that rewards and punishments, regulated by the law, may affect the preferences of an individual.⁹⁵ Thus, the legislator has the power to choose desirable directions which can coordinate citizens and create a prosperous society. As a social unity develops through the legislative rules, individuals would risk a social shame if any breaching was made. Ultimately, norms and certain behaviours would thus be created in order to avoid such situations. According to Huber, Shipan & Pfahler, following factors are important when establishing statutory regulation and thereby prevent undesirable actions. A detailed legislation would be preferable if conflicts of interests are present and if the legislator’s desires are not complied.⁹⁶ If all parties, on the other hand, have equal ambitions, stricter regulations would not be necessary.

⁹⁰ Brien (1998), p. 393f

⁹¹ Ibid, p. 392

⁹² Ibid, p. 394

⁹³ Barber (1983), p. 139

⁹⁴ Canning & O’Dwyer (2001), p. 728

⁹⁵ Fleisig-Greene (2007), p. 1207

⁹⁶ Huber, Shipan & Pfahler (2001), p. 332

Further, the legislator must have ability to implement a regulatory framework that encourages desirable conducts.⁹⁷ They therefore have to possess essential knowledge, of which policies that will bring forth certain outcomes, to be able to develop specific and appropriate instructions.⁹⁸ Ultimately, these factors provide important elements when deciding whether a statutory control should be implemented or not.

3.3.2 Supervision of Auditors in Sweden

In Sweden, supervision of auditors has been performed since the beginning of the 20th century. At first, the task was assigned to the Chamber of Commerce in Stockholm. In the 1970's the oversight became controlled by the government when the National Board of Trade acceded the surveillance and certification of accountants. In 1995, the Authority was separated and the SSBPA was founded as an individual entity.⁹⁹ The work of the SSBPA is regulated in the (SAA) and the Regulation (2007:1077) with instructions for the Supervisory Board. It is constituted that the SSBPA shall handle certification of approved and authorised auditors, supervise and scrutinise the work of auditors and be responsible for the development of accepted principles of auditing and auditors.¹⁰⁰ Moreover, the SSBPA is the representative of Sweden in several international organisations for developing auditing and the auditing market; amongst others, the EGAOB which is a forum for national supervisory boards in the European Union.¹⁰¹

The oversight of the SSBPA is divided into four work areas: SOS, on-going quality control, disciplinary cases and preliminary decisions on specific questions. The SOS function selects investigation objects through a systematic and risk based sampling. The SSBPA can furthermore open a case on the basis of media attention or other notifications. If the obligations of an auditor are omitted, a disciplinary case will be opened. The Board of Supervision reviews the disciplinary cases reported by the Swedish Tax Agency (STA), the SOS function or other informers. The Board judges the auditor depending on the revealed circumstances in each case and imposes an appropriate sanction.¹⁰²

Furthermore, a framework regarding professional diligence is applied in Sweden, which means that few detailed regulations exist. The reason why practices are not distinctly explained is partly because the audit review would risk being too limited.¹⁰³ A more specific legislation would require constant updating in order to adapt to the fast development and thereby clarify what must be included in the audit. Development of guidelines and interpretations of concepts is allocated to the SSBPA and audit organisations. According to the SAA §3, the SSBPA has the responsibility to ensure that “the PEA and the GAAS are developing in an appropriate manner”. In case of doubt whether professional conduct has occurred, the matter will be decided by the supervisory authority. Additionally, the audit

⁹⁷ Huber, Shipan & Pfahler (2001), p. 332f

⁹⁸ Ibid, p. 334

⁹⁹ http://www.revisorsnamnden.se/rn/om_rn_4706/historia_5555.html

¹⁰⁰ http://www.revisorsnamnden.se/rn/om_rn_4706.html

¹⁰¹ http://www.revisorsnamnden.se/rn/om_rn_4706/revisorsnamndens_internationella_arbete.html,
http://ec.europa.eu/internal_market/auditing/egaob/index_en.htm

¹⁰² <http://www.revisorsnamnden.se/rn/tillsyn.html>

¹⁰³ FAR (2006), p. 25

organisation FAR has issued guidance standards within specific areas which the auditors have to take into account.¹⁰⁴ Since the legislature has not clarified the concepts, the auditors and audit firms is faced with higher requirements of having a well-functioning work structure.

3.3.3 Disciplinary Sanctions of the SSBPA

To investigate whether an auditor has handled its professional responsibilities properly, a disciplinary case can be opened by the SSBPA's supervisory authority.¹⁰⁵ In cases where the SSBPA consider that auditors have omitted their obligations the Authority shall, according to the SSA 32§, decide on an appropriate disciplinary sanction. Depending on how substantial the incident is considered to be, the auditor can face different sanctions; a reminder, a warning or a withdrawal of approval or authorisation.¹⁰⁶

The lightest form of sanction, a reminder, is imposed if the Authority finds a case where the auditor has not complied with the GAAS and the PEA.¹⁰⁷ The error is analysed and the SSBPA issues a reminder, according to the SAA 32§, if the disciplinary sanction is considered to be sufficient enough. When auditors neglect their obligations a warning is imposed which is a more stringent sanction compared to a reminder. The sanction is executed when the negligence is considered severe enough and will result in a withdrawal of approval or authorisation if the incident is repeated.¹⁰⁸ However, the SAA 32§ emphasizes when situations with *mitigating circumstances* exist, the auditor can receive a warning instead of a withdrawal. Finally, the most severe sanction imposed by the SSBPA is the withdrawal of approval or authorisation. According to the SAA 32§, withdrawals occur in situations where the auditor "intentionally does wrong in the auditing activity, or otherwise proceeds dishonest". Thereby, the auditor loses the possibility to pursue the professional commitments.

3.4 Theory of Trust

The modern society would not exist without trust, as relationships and institutions demand some level of confidence to function properly. The following presentation of theory of trust will focus on public and system trust, not personal trust, since this thesis aims to investigate the role of the auditor as a professional and the public interest in the relationship. Luhmann and Barber are ground-breaking researchers within this field by linking trust to sociology. Finally, as auditors are classified as professionals, trust concerning this is discussed.

3.4.1 System Trust

In order to make a sensible presentation of trust it has to be defined. No unanimous definition has been agreed upon as researchers use the expression of trust with different meanings. However, all has something to do with expectations. Trust has been defined as a tool for handling social relationships and uncertainty therein.¹⁰⁹ Trust is a way to *reduce complexity*

¹⁰⁴ FAR (2006), p. 110

¹⁰⁵ http://www.revisorsnamnden.se/rn/tillsyn/mer_om_disciplinarenden.html

¹⁰⁶ <http://www.revisorsnamnden.se/rn/tillsyn/disciplinarenden.html>

¹⁰⁷ Ibid.

¹⁰⁸ Ibid.

¹⁰⁹ Barber (1983), p. 8

and in the broader sense a faith in own expectations.¹¹⁰ Finally, trust is defined as an expectation that distinct statements are reliable.¹¹¹ Trust is therefore not a psychological phenomenon but sociological, in social relationships, as individuals in general is not in need to trust themselves.¹¹² Further, there are three aspects of trust: intellectual, emotional and behavioural. These complement each other to a different extent and forms diverse kinds of trust. The intellectual aspect focuses on the rational considerations on what is seen as trustworthy. The emotions arising within social relationships constitute the second aspect. The behavioural aspect is the way to act in an untrustworthy society.¹¹³

In social systems the participants have three dimensions of expectations on each other. “The most general is expectation of the persistence and fulfilment of the natural and the moral social order. Second it is expectations of technically competent role performance from those involved with us in social relationships and systems. Third, is expectation that the partners in interaction will carry out their fiduciary obligations and responsibilities, i.e. their duties in certain situations to place others’ interest before their own.”¹¹⁴ Modern society is characterised by an increasing amount of unpredictable social interpersonal relationships with higher risk and therefore impossible to base on personal trust alone.¹¹⁵ Since trust as a fiduciary obligation or responsibility is not effective as a control measure it needs to be complemented.¹¹⁶ Society then relies more on a system trust in terms of reliance in the function of sanctions and measures aimed at protecting the relationships.¹¹⁷

Furthermore, it is argued that trust is not about trusting or not trusting someone, instead trust varies between different levels of trust or distrust.¹¹⁸ Five levels of trust have been identified by Dietz & Den Hartog, which are presented in the figure below. The first level of trust, deterrence-based trust, is actually not trust at all, but distrust. The trust lies within reliance in behaviours as they are controlled by threats of sanctions which are too costly to neglect and is therefore considered a matter of distrust.¹¹⁹ The second level, the calculus-based trust, is still not a form of real trust. Within the calculus-based level, trust is only pursued if seen as beneficial from a cost-benefit point of view.¹²⁰ It seems these forms of trust are not based on relationships with other humans, but rather a result of external demands of confidence, in institutions for example. Knowledge-based trust is the first level concerning real trust as it is founded on the knowledge of the behaviour of others. An even stronger level of trust is created when knowledge-based trust is complemented by experience, the relationship-based

¹¹⁰ Luhmann (2005), p. 41, 170

¹¹¹ Lewis & Weigert (1985), p. 975

¹¹² Ibid, p. 969

¹¹³ Ibid, p. 972

¹¹⁴ Barber (1983), p. 8f

¹¹⁵ Lewis & Weigert (1985), p. 973f

¹¹⁶ Barber (1983), p. 16

¹¹⁷ Lewis & Weigert (1985), p. 973

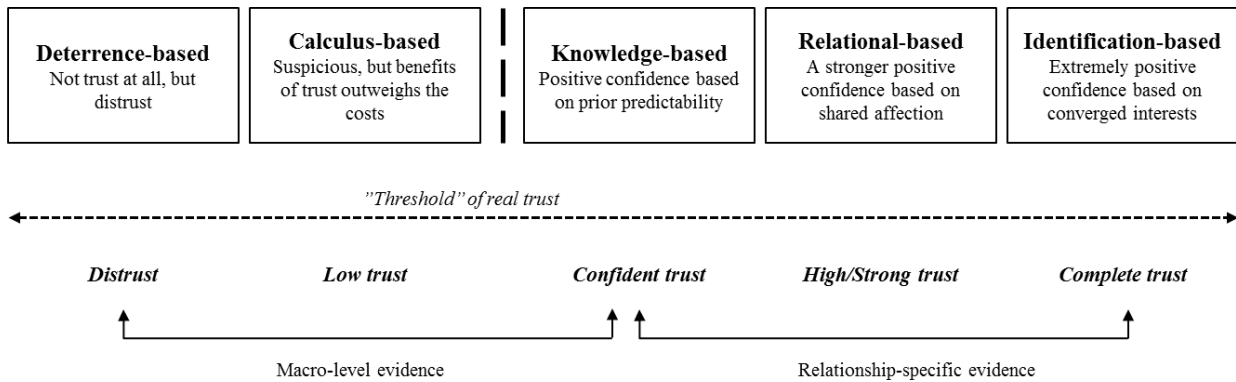
¹¹⁸ Dietz & Den Hartog (2006), p. 557

¹¹⁹ Rousseau, Sitkin, Burt & Camerer (1998), p. 398

¹²⁰ Dietz & Den Hartog (2006), p. 563

trust. Finally, the ultimate level of trust, with total confidence in another, is identification-based trust.¹²¹

Figure 1 - Different qualitative degrees of trust



Source: Dietz & Den Hartog (2006)¹²²

System trust is thus believing that all is in order, having expectations of continuity and reliance that all measures are performed after careful consideration.¹²³ Trustors has to rely upon the control mechanisms as unaffected by the motivations of those involved.¹²⁴ In system trust both trust and distrust exist together as social control mechanisms, created to generate trust, but is in fact an expression of distrust in the individual.¹²⁵ This social control reduces risks involved in society through sanctions which makes it possible to anticipate possible outcomes.¹²⁶ Social control is a tool for reaching the social system requirements, not a means for restricting behaviours.¹²⁷

3.4.2 Trust in Professionals

One type of social relationship, based in large parts on trust, is the relationship between a professional and its client. In trustworthy persons there are three certain characteristics visible: an ability to solve problems at hand, integrity and good will to put other interests before their own.¹²⁸ Professionals are characterised by the fiduciary obligation and responsibility to the public and it is therefore vital that professionals act responsibly and comply with ethical norms since they possess a unique competence.¹²⁹ As a result of the public interest in the work of the professionals, the fiduciary obligations are monitored closely by the public.¹³⁰

Relationships based on trust, as this kind, demands confidence in the knowledge, competence and integrity of the professional. Trust alone, as mentioned above, is not effective as a control mechanism and professionals require some kind of social control to ensure actions in the

¹²¹ Dietz & Den Hartog (2006), p. 563f

¹²² Ibid, p. 563

¹²³ Lewis & Weigert (1985), p. 974, Luhmann (2005), p. 106

¹²⁴ Luhmann (2005), p. 199

¹²⁵ Ibid, p. 199

¹²⁶ Ibid, p. 66

¹²⁷ Barber (1983), p. 19

¹²⁸ Ibid, p. 265

¹²⁹ Johansson, Jönsson & Solli (2006), p. 254

¹³⁰ Barber (1983), p. 140

public interest.¹³¹ Professions is effected through controls mechanisms as moral standards, peer control and external formal means such as licensing, standard setting and sanctions for misbehaviour.¹³² The relationships would however be distorted if the control and rules preventing certain behaviour were too restrictive.¹³³ The mere existence of legislation is an expression of lost trust in the profession.¹³⁴ A professional who breached the limits of ethical behaviour and is perceived as unreliable hurts the reputation of the whole profession.¹³⁵

In summary, trust is an essential ingredient in every relationship in the complex modern society but it has limitations. Trust has to be complemented with different types of social control mechanisms such as legislation and disciplinary actions which are working as deterrence against untrustworthy behaviour.

3.5 Institutional Theory

Institutional theory has interested several researches, among others Scott and Powell & DiMaggio, who describe vital features of institutions. Scott defines elements moving “from legally enforced to the taken for granted”, which affect organisations in certain directions.¹³⁶ Powell & DiMaggio further analysed why organisations become more homogenous over time.

When defining institutional theory, Scott uses three different pillars of institutions: regulative, normative and cultural-cognitive systems.¹³⁷ By regulative systems, desirable behaviours can be promoted. Through the ability to implement rules, to learn about compliance as well as to reward or punish certain behaviours, the required directions might thus be conveyed. By following inserted rules, the institutions would therefore acquire legitimacy. Normative systems include both norms and values which affects social behaviour.¹³⁸ Values represent a desirable condition and the criteria expected to be fulfilled. In alliance with standards, specific behaviours could thus be clarified. Norms assign how situations should be handled and thereby achieve the given values. Individuals expect to act along specific standards, such as routines, strategies and roles.¹³⁹ Consequently, adoptions of established norms could confine certain behaviours and include further rights and obligations. Cultural-cognitive systems describe institutions from a social perspective. Through symbolic signs, such as gestures and words of choice, different messages might be conveyed. Thus, meanings in the interaction could be generated within the organisations. When shared beliefs with cultural support are established, routines are often taken for granted and followed. Moreover, social roles are commonly occurred in organisations and specific types of actors are central in this point of view.¹⁴⁰

¹³¹ Barber (1983), p. 16

¹³² Ibid, p. 138

¹³³ Lewis & Weigert (1985), p. 978

¹³⁴ Johansson, Jönsson & Solli (2006), p. 255

¹³⁵ Brien (1998), p. 403

¹³⁶ Scott (2001), p. 51

¹³⁷ Ibid, p. 51

¹³⁸ Ibid, p. 54f

¹³⁹ Ibid, p. 55f

¹⁴⁰ Ibid, p. 57f

Institutional theory has also been analysed by Powell & DiMaggio, who have a similar approach to organisations. Powell & DiMaggio ascertained several important elements when analysing changes within organisations. In the preliminary stage of the corporate life cycle, fairly large differences can be recognised in organisations as they follow their own philosophy. When organisations enter an organisational field where similar actors operate, reforms often occur and homogeneous features become clearer. As the public affect the formation, new goals and practice may emerge within the organisations.¹⁴¹

Furthermore, they explain similarities between the organisations with the concept isomorphism which includes coercive isomorphism, mimetic processes and normative pressures.¹⁴² Coercive isomorphism clarifies some organisational changes as compulsory. In order to meet the demands of other powerful actors, both formal and informal requirements need to be handled.¹⁴³ By political pressures and governmental controls, new similar standards might thus be created. However, mimetic process could be an option if problems within the organisation occur. If a proper solution cannot be found, practices of other peers can be advantageous to mimic. Mimetic behaviour could further be beneficial for legitimacy, as the organisation is associated with well-established concepts.¹⁴⁴ Finally, normative pressures describe the importance of professions and how they affect institutions. Within professionalism, a formal and legitimate education is essential.¹⁴⁵ As the *key figures* in a company are educated in comparable ways by the universities, management will be handled similarly. The growth of consultancy firms, which implements similar concept in diverse organisations, is another explanation why companies become more alike. Powell & DiMaggio found that similarities between organisations can be beneficial since such organisations often get rewarded. Consequently, this could make it easier for an organisation to connect with other actors within the same field, to attract career-minded personnel and be seen as legitimate.¹⁴⁶

In summary, different features in the environment have an impact on organisations, according to Scott and Powell & DiMaggio. Consequently, this type of institutional theory can be an interesting aspect to consider when investigating if a specific behaviour within the audit profession could be detected.

¹⁴¹ Powell & DiMaggio (1983), p. 148

¹⁴² Ibid, p. 149ff

¹⁴³ Ibid, p. 150f

¹⁴⁴ Ibid, p. 151f

¹⁴⁵ Ibid, p. 152f

¹⁴⁶ Ibid, p. 153

4 Method

In this chapter a presentation of the chosen method is made. At first, a description of the literature research is presented. Secondly, a detailed review of how the data was collected, handled and analysed is outlined. Ultimately, source criticism is discussed.

4.1 Literature Research

In order to answer the research questions presented in the first chapter, an appropriate approach was early discussed. Initially, information from several sources was collected to get a broader and deeper understanding of the subject area. Dissertations and previous student essays within the subject were read for further inspiration. To obtain a deeper knowledge of the SSBPA, a lot of information regarding its activities and functions was gathered through the website of the Authority. By studying the sources used in former student essays, the dissertation of Thomas Carrington from 2007, scientific articles as well as other interesting literature was acquired.

Databases on the website of Gothenburg University Library were frequently used in the search of interesting and suitable literature. The databases Business Source Premier, FAR Komplet and the search tool for scientific articles were the main sources for obtaining important articles related to the aim of this study. When conducting the literature search the following terms was used, solely or in different combinations: accountant, auditor, audit, audit quality, accounting scandals, behaviour, disciplinary cases, ethic, independence, professions, recidivists, regulation, relapse, repeat offenders, “Revisorsnämnden”, sanctions, Swedish Supervisory Board of Public Accountants, system trust, trust. Thus, the authors found interesting literature which was used in the analysis of the empirical data through various search paths.

4.2 Collection of Data

To achieve the aim of investigating a supervision authority, and by this consider whether the supervision can ensure audit quality, an empirical research was conducted on a number of disciplinary cases. To increase the validity, the authors made vital limitations and the review was specifically designed in order to measure what originally was intended to be measured. The data collected was limited to the disciplinary cases of the Board of Supervision. Other functions within the organisation, like the SOS, were left without regard. The reasons for limiting the data collection were that the magnitude of data, if all the disciplinary cases within the SSBPA were to be included, would be unmanageable. Additionally, the SOS cases frequently do not lead to any charges. Finally, the disciplinary cases which did not result in a disciplinary sanction were not investigated or analysed.

On the website, the disciplinary cases are published as PDF-documents, for most part between two to 15 pages long, following a systematic disposition (see Appendix 3). Initially, the source of notification and the underlying cause are presented. Thereafter, a presentation of the

case specific circumstances is made and the auditor charged is offered to make a comment. In every case, the auditor charged is called *A-son* in order to make the case anonymous. The SSBPA then reports their assessment and the causes for the outcome. Finally, a summary of the case is made and the SSBPA presents their decision and the sanction imposed. When the cases were read, certain aspects were decisive for the assessment. Only the errors the SSBPA found to be serious enough to cause a sanction was included in the judgment by the authors. Further, an overall browse and a summary of each case served as basis for the evaluations. However, in some cases a deeper review was necessary to conduct. An example of how the assessment was made is presented in Appendix 3.

The study of the disciplinary cases was constrained to the time period between 2004 and 2010 in order to continue the study of Carrington which treated the years between 1995 and 2003. In the period of time, 350 cases were included, but since seven cases were written off, the empirical research was based on 343 cases. However, the collection of disciplinary cases, provided on the website, appeared to be only a selection of all cases treated by the SSBPA. If so, this would mean that statistics based on cases in the search engine could give a distorted result. In order to find out if any additional cases could be found, the authors contacted the SSBPA through e-mail. The representative of the SSBPA informed that almost every disciplinary action is issued on the website. Some occasional cases that lack value in practise, and cases settled by officials, are excluded. The latter represents cases of withdrawal of approval or authorisation, based on requests from the auditor itself, and cancellation of disciplinary cases without any action. Therefore, the authors considered the cases on the website as the most relevant to examine. As Carrington chose the same method in his study, the empirical base for a comparison would be satisfactory.

4.3 Data Handling

The empirical work was divided into two parts. Initially, an Excel document was created with a template of some essential variables for the study, one variable per column (see Appendix 1). The template included the following variables: reference number, if the disciplinary case included several cases, year, source of notification, categories of wrongdoings A to I, imposed sanction and if the case concerned a relapse. The disciplinary cases were read in chronological order and the data obtained was compiled in the document. The template was continuously filled with the information retrieved for each case. The wrongdoings were marked with an x in the appropriate column representing the error category. As a case could include several wrongdoings, different numbers of errors could be comprised in every case. When testing the model on ten cases, inconsistencies were found occasionally in the necessary assessments made by the authors. The authors then decided to read ten cases at time and thereafter compare the results. When inequalities were found, the cases were intimately discussed and errors corrected.

To provide a meaningful comparison with Carrington's study, and in order to investigate whether any trends of disciplinary sanctions can be inferred, this study had to rely on the same method. The errors were therefore divided according to the categories A-I below. To increase the reliability of the study, the authors had a detailed discussion regarding

Carrington's definition of each category. The first four errors were collected into the main category *process wrongdoings*, whilst the remaining five errors were part of the main category *professional wrongdoings*.

- A. Error of judgement or execution when performing the audit
- B. Insufficient documentation
- C. Insufficient or inadequate planning and risk assessment
- D. Failure to report suspicion of crime
- E. Lack of independence
- F. Shortcoming in the audit firm organisation
- G. Failure to cooperate with, or resist, the SSBPA's investigation
- H. Not registered with, or paid the fee to, the SSBPA
- I. Unprofessional conduct

Category A includes errors made in the audit process. This category has a wide range as several types of wrongdoings could be involved, such as inadequate review or deficient work efforts. In category B, the authors chose to remark on documentation which not only was seen as poor, but which also was seen as a reason for disciplinary action. Category C contains cases with insufficient planning and risk assessment. As with category B, only cases where the SSBPA could prove inadequate planning or risk assessment was rated as C. Within category D the auditor failed to report suspicion of crime and violated the SCA 42-44§§.

Category E involves lack of independence of the auditor. The authors chose to remark on both conflict of interest and independence, which violates the SCA and the SAA. In category F, errors were derived from shortcomings in the audit firm organisation. The authors chose to remark on the audit firm when it was illegally organised, as well as errors within its business. Category G and H treats wrongdoings involving the SSBPA in different manners. These two categories were only applied in cases when it was clear that the auditors mismanaged their obligations towards the Authority. Category I handles unprofessional conducts of the auditor. The authors found errors connected to different improper behaviour which was not necessarily attributed to the audit procedures. In cases where the errors were connected to the auditor as deputy for the audit firm, unprofessional conduct had occurred. This ultimately meant that a lot of different wrongdoings were compiled into the category.

The authors were, for the most part, of the same opinion when classifying the disciplinary cases. Although, in some cases a more detailed discussion was necessary to provide a correct categorisation. The authors were also aware of the risk that the categorisation could cause different interpretations and ultimately a biased result. The systematic structure of the empirical work was considered to minimise this risk.

In order to investigate whether recidivists are a major problem, and if any different behaviour can be seen in the relapse, further reviews of the disciplinary sanctions were completed. The empirical research resulted in 27 cases of repeated offences. Three of these cases concerned errors where the auditor did not cooperate with, or answered, the SSBPA. The auditor was initially imposed a warning but when the behaviour continued the auditor finally received a withdrawal of approval or authorisation. These cases were not included in the data used for

analysis since the relapse concerned a single case. Furthermore, four cases concerned relapses of the same auditor and could therefore be merged with the other cases. Consequently, 20 repeat offenders were found which constituted the basis for the analysis.

4.4 Analysis of the Data

The analysis is based on the results of the empirical study of the disciplinary cases. The findings compiled in the Excel document are presented in tables and figures. Necessary calculations and statistical computations were made in Excel and the statistical software SPSS. From the results, important findings were distinguished and analysed using the frame of reference and previous studies. The data covering the disciplinary cases during 2004 to 2010 is presented in tables identical to the structure in Carrington's study. The results of the tables were compared with Carrington's result and the findings analysed and discussed. The analysis formed the base for answering the research question of which trends could be inferred between two time periods.

The empirical data concerning recidivists were compiled in a separate document. As several relapse cases concerned the same auditors, the cases were linked together and thus connected to the specific auditor. Additionally, the relapses were categorised based on three different aspects: if the auditor committed more or less errors, the same or different type of errors and if process or professional wrongdoings were made in the relapse. The results are further presented in tables and figures and analysed in order to answer the last research question, concerning the behaviour of repeat offenders. To provide a deeper understanding how a recidivist acts, three case studies are presented. Thus, cases were chosen in order to reflect the three aspects.

4.5 Source Criticism

In this thesis, sources from different origins were used, and it consisted of research articles in scientific journals, books and online published material. The scientific articles were obtained from well-known databases and were originally published in reliable, peer-reviewed scientific journals. When possible, the original sources were retrieved to minimise the risk of misinterpretations. Many authors are well-known and respected researchers, whose work has been extensively and frequently referenced. In a few cases though, the original source could not be retrieved as older publications were not available in the databases, so information was collected from a secondary source.

The information obtained from online publications was mainly taken from public organisations and authorities, and was therefore considered reliable. The disciplinary cases were retrieved from the praxis database on the website of the SSBPA. As the authors have been in contact with the SSBPA concerning possible bias, as mentioned above, the database was considered to be a reliable source for the cases. Through the writing process considerable effort was devoted to find reliable sources, and those considered untrustworthy were left out.

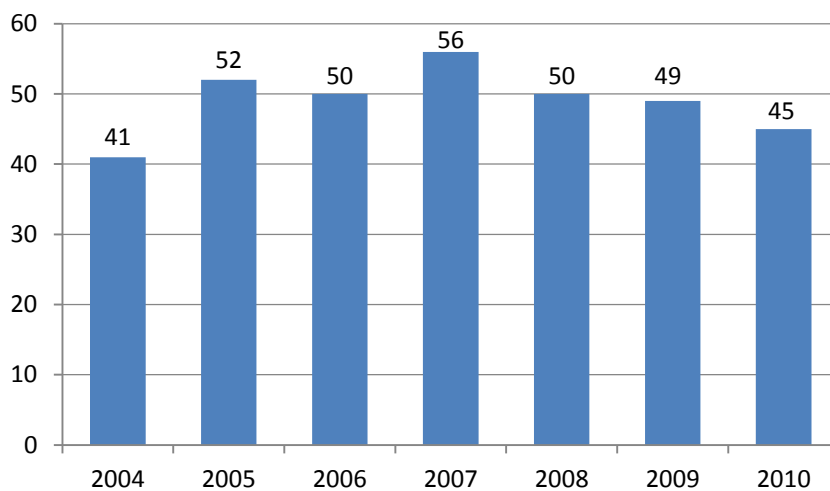
5 Empirics and Analysis

In this chapter results of the empirical study are compiled and described. Initially, the outcome of the study is presented. Following, results from the in-depth study of relapses are described. Finally, the findings are analysed and discussed in relation to the norms, theories and previous studies recently introduced.

5.1 Disciplinary Cases between 2004 and 2010

In order to investigate if any trends of disciplinary sanctions can be inferred between the two periods of time, a review of the disciplinary cases issued by the SSBPA were completed. After reading a total of 350 disciplinary cases resulting in a disciplinary sanction during the years 2004 and 2010, the following results were obtained. Since seven of the 350 cases were written off, and therefore not included, the compilation and statistics are based on 343 cases. The disciplinary cases were distributed over the time period according to the figure below. The figure shows the frequency of disciplinary cases ranges from 41 cases to 56 cases per year, with a mean of 49 cases. The number of cases thus does not vary considerably over the period.

Figure 2 - Number of disciplinary cases during the years 2004 – 2010



The total amount of initiated disciplinary cases within the SSBPA is presented in the table below. The mean number of cases during the period is 137. When comparing the total number of initiated cases with the disciplinary cases resulting in a disciplinary sanction, it is revealed approximately 36 per cent of all cases initiated lead to disciplinary actions.

Table 4 - Total number of disciplinary cases in the SSBPA

Informer	2010	2009	2008	2007	2006	2005	2004
Self-initiated	24	32	36	45	26	38	39
- of which from SOS	(6)	(10)	(7)	(12)	(13)	(14)	(13)
- of which from quality control	(9)	(6)	(18)	(18)	(6)	(7)	(8)
STA	15	14	30	26	33	42	52
Client	42	44	39	35	18	33	45
Others	38	38	36	36	36	37	28
Total	119	128	141	142	113	150	164

Source: The Annual Reports of the SSBPA 2010, 2007 and 2004¹⁴⁷

5.1.1 Correlations of Errors and Sanctions

Following table shows what categories of errors the disciplinary cases contained. The table follows the presentation of Carrington's study in order to make meaningful comparisons possible. The findings will be further explained below.

Table 5 - The number of disciplinary cases (2004 – 2010) mentioning a specific wrongdoing broken down on type of punishment

Wrongdoings	Withdrawal	Warning	Reminder	All cases
PROCESS FAILURE	36 (12%)	165 (58%)	85 (30%)	286 (83%)
Error of judgment or execution when performing the audit	36 (13%)	161 (58%)	81 (29%)	278 (81%)
Insufficient documentation	26 (28%)	61 (65%)	7 (7%)	94 (27%)
Insufficient or inadequate planning and risk assessment	8 (36%)	12 (55%)	2 (9%)	22 (6%)
Failure to report suspicion or criminal activities	2 (25%)	3 (37.5%)	3 (37.5%)	8 (2%)
PROFESSIONAL FAILURE	28 (23%)	66 (54%)	29 (23%)	123 (36%)
Lack of independence	18 (23%)	49 (63%)	11 (14%)	78 (23%)
Unprofessional conduct	10 (21%)	23 (48%)	15 (31%)	48 (14%)
Shortcomings in the audit firm organization	3 (20%)	7 (47%)	5 (33%)	15 (4%)
Failure to cooperate with the SSBPA's investigation	3 (100%)	0 (0%)	0 (0%)	3 (0.9%)
Not registered with, or paid the fee to, the SSBPA etc.	0 (0%)	0 (0%)	0 (0%)	0 (0%)
All cases	43 (13%)	190 (55%)	110 (32%)	343 (100%)

¹⁴⁷ http://www.revisorsnamnden.se/rn/showdocument/documents/foreskrifter/arsredovisning_budget_regleringsbrev/arsredovis10.pdf
http://www.revisorsnamnden.se/rn/showdocument/documents/foreskrifter/arsredovisning_budget_regleringsbrev/arsredovis07.pdf
http://www.revisorsnamnden.se/rn/showdocument/documents/foreskrifter/arsredovisning_budget_regleringsbrev/arsredovis04.pdf

In the 343 disciplinary cases, the errors committed were divided into nine categories. Since it is possible to commit several types of errors in a single case, summations will not equal 100 per cent. Errors committed in 43 cases were severe enough to cause a withdrawal of approval or authorisation, which is 13 per cent of the 343 cases. In 110 disciplinary cases, or 32 per cent, the mildest sanction reminder was imposed. Warning was sentenced in 190 cases, or in 55 per cent of the total number, and is consequently the most frequent sanction imposed.

In 278 disciplinary cases the auditor made an *error of judgement or execution when performing the audit*. This implies that it is the most common error since 81 per cent of the cases concerned an error of this type. An *insufficient documentation* of the audit was recovered in 94 disciplinary cases and in 22 cases the planning and risk assessment was considered insufficient. According to the SCA, auditors is obliged to report any suspicion of criminal activities, but in eight disciplinary cases the auditor failed to do so. 78 cases concerned a violation against rules of independence, which is 14 per cent of the total amount. In 15 cases, the auditor did not organise the audit firm according to the requirements. Three cases concerned an auditor who did not cooperate with the SSBPA's supervision or quality control. Finally, not a single case concerned an auditor that had not paid the fee or registered with the SSBPA.

Auditors were sentenced in 286 disciplinary cases for making an audit process error, which is 83 per cent of the total amount of cases. This includes cases where auditors only made process errors, but also cases with both process and professional errors. 123 disciplinary cases, or 36 per cent, concerned a professional error. As before, cases with only professional errors, and both professional and process errors, were included. Of the 286 cases with process and process/professional errors, 36 resulted in a withdrawal of certification, 165 in a warning and 85 in a reminder. In 28 of the 123 cases, concerning professional and professional/process wrongdoings, the auditor was imposed with a withdrawal, 66 cases received a warning and finally, for 29 cases the imposed sanction was reminder.

When comparing the results of Carrington's study with the results above, some interesting differences and similarities were distinguished. At first, when analysing the disciplinary sanctions, the distribution were as follows. The withdrawals of approval or authorisation had exactly the same percentage in both periods, as 13 per cent of all cases were allocated with the harshest sanction. However, the comparison of warnings and reminders, some differences were noted. In the former time period, 65 per cent of the disciplined auditors were convicted with a warning, while 22 per cent received a reminder. In the later period of time, imposed warnings had decreased with ten percentage points, and the opposite had happened with reminders.

Secondly, when analysing the proportion of the main categories process and professional wrongdoings, following results could be seen. Errors in the category process wrongdoings increased with 14 percentage points and were included in 83 per cent of all disciplinary cases in this study. The main differences observed were once again the allocation between warnings and reminders imposed. Warnings were still the most common sanction received but decreased with 17 percentage points, while reminders increased with 18 percentage points.

Further, the category professional wrongdoings decreased with 24 percentage points and were represented in 36 per cent of all cases in the later period. However, no major differences between the imposed sanctions could be noted. A slight increase of withdrawals could be distinguished in relation to the other two options of punishment. The authors found these results interesting as it implies that auditors have become more aware of the importance of professionalism. On the other hand, it seems like auditors have been more negligent when performing the audit.

Thirdly, the authors found it interesting to analyse the differences between the subcategories of wrongdoings. Since several errors could be involved in each case, differences or similarities between categories, and imposed sanctions, cannot be distinguished. The specific category may not be the decisive factor for the sanction imposed. However, the comparison will provide an indication of how the auditors' conduct was judged by the SSBPA.

A: Error of judgement or execution when performing the audit. This was the most frequent category and where the highest number of errors was performed in both periods of time. A large difference was noted since errors within this category increased with 15 percentage points. The proportion of warnings decreased with 18 percentage points, while reminders increased by the same proportion. As the category is wide, it is difficult to review all deficiencies in the audit and thereby identify the exact changes that occurred. A reason behind the outcome might be that auditors performed other types of errors, as less severe wrongdoings were committed in the audit. Another option is that the SSBPA changed its approach, and is now studying cases which previously were not objects of investigation. Thus, in such cases a reminder would have been considered a sufficient sanction.

B: Insufficient documentation. This was the second most common category within process wrongdoings when it comes to both periods of time. When comparing the periods, a decrease of five percentage points was distinguished. However, no major differences in the sanctions imposed were observed, as only a few percentage points differed. As natural variations between the years could cause small changes, the authors did not consider this result to indicate a different behaviour.

C: Insufficient or inadequate planning and risk assessment. In this category, only a few differences could be seen. The category was involved in eight per cent of the disciplinary cases in the first period but decreased with two percentage points over the periods. When comparing executed sanctions the same proportion of imposed withdrawals were found. Only a few percentage points differed between warnings and reminders. Consequently, no signs of change were given by the emerging results.

D: Failure to report suspicion of crime. This category was present in only a few per cent of the disciplinary cases. However, the authors found some interesting aspects when analysing the outcome. The results of Carrington's study revealed that only one case involved this type of error. When analysing results from the later period, eight cases concerned this error. According to the SCA 42-44§§, auditors are obliged to report accounting fraud to a prosecutor. A further investigation revealed that two cases occurred in 2008, three cases in 2009 and finally, three cases in 2010.

E: *Lack of independence*. Despite the fact that the frequency of this category decreased from 43 per cent to 23 per cent, it was still the most common category within professional wrongdoings. In the later period, more severe sanctions were imposed when the errors were classified as lack of independence. Withdrawals and warnings increased with seven and four percentage points respectively, while reminders decreased by the aggregated proportion. Notably, in the last period, this type of error was involved in cases that resulted in more serious sanctions.

I: *Unprofessional conduct*. The category continued to represent the second largest category within professional errors as it was present in 14 per cent of all cases. However, a decrease of six percentage points could be seen between the periods. Another interesting observation was a decrease of withdrawals by nine percentage points with an equivalent increase of reminders. This could imply that errors, derived to this category, were seen as less serious in the later period. An alternative explanation may be that the errors committed were not considered equally severe as the previous.

F: *Shortcomings in the audit firm organisation*. In the later period, the presence of these errors decreased with two percentage points to four per cent. The analysis showed that reminders increased with 24 percentage points while withdrawals decreased with 23 percentage points, thus, warnings decreased with one percentage point. As mentioned above, this suggests that either less serious crimes were carried out, or that the approach of the SSBPA has altered. When investigating single cases, three cases contained only this type of error and every case resulted in a reminder which might strengthen the last assertion.

G: *Failure to cooperate with, or resist, the SSBPA's investigation* and H: *Not registered with, or paid the fee to, the SSBPA*. Wrongdoings were not often attributed to these categories in the later period as it only represents a few, or zero, per cent of all cases. One possible explanation might be that the SSBPA was newly established in the previous period and that auditors had poorer knowledge about what was expected of them. Nowadays, expectations and the Authority are well-established.

5.1.2 Economic Consequences or Shame

Carrington divided the disciplinary actions into sanctions causing economic consequences and sanctions of shame. Withdrawal of approval or authorisation is considered to have economic consequences since auditors are not able to continue their work after receiving the sanction. The punishment of shame, intended to deter auditors through the risk of public humiliation, constitutes of warnings and reminders. The disciplinary cases and sanctions imposed are presented, according to Carrington's approach, in the following table.

Table 6 - Types of wrongdoings and punishment mentioned in the cases (2004 – 2010)

	Economic consequences	Shame	Total
Process	15	205	220
Process and professional	21	45	66
Professional	7	50	57
Total	43	300	343

As noted before, 43 disciplinary cases resulted in withdrawal of approval or authorisation, an economic consequence. 15 cases, concerning solely errors in the audit process, and seven cases where the auditor failed professionally, lead to an economic consequence. Economic consequences were most frequent in cases which involved both process and professional errors, cases where the auditor failed to conduct a sufficient audit and, at the same time, breached the boundaries of the PEA. In 300 cases, auditors were imposed with a punishment of shame. 205 of 220 disciplinary cases concerning process wrongdoings resulted in this sanction. In cases containing both types of wrongdoings, the punishment of shame was imposed 45 times. In 50 cases, the auditor made a professional error and was sentenced with a sanction of shame.

In comparison, the sanctions imposed had exactly the same percentages in both periods of time. Almost 13 per cent of the auditors received sanctions with an economic consequence while 87 per cent received a sanction of shame. Some significant differences were however found between the frequency of process and professional wrongdoings. A large increase was discovered in cases containing only process errors as the main category rose by 24 percentage points. In cases where both process and professional wrongdoings were committed, the proportion decreased by ten percentage points. A slight difference was observed in this category as sanctions with economic consequences increased by five percentage points, while sanctions of shame decreased with the same amount. The results further revealed that the cases with professional wrongdoings only decreased by 14 percentage points. However, the distribution of the sanctions was only marginally different.

5.1.3 Summary and Analysis of Interesting Observations

To summarise, the most important observations discerned from the comparison are, initially, an increase in reminders and a decrease in warnings while withdrawals remained the same. This is thus a reallocation of the sanctions imposed in the disciplinary cases. In order to understand this outcome, the authors discussed two possible explanations. Either the auditors had performed less severe errors, or the SSBPA might have altered its approach in recent years, and adopted a different attitude towards the sanctions imposed. If the auditors committed less serious crimes, it indicates a change of the awareness of auditors which leads to a decreased risk for severe auditing scandals. If the SSBPA changed its approach, less serious punishments will be imposed for similar offenses.

In comparison with the previous study on the ICAI, sanctions that concerned shame were imposed in 87 per cent of the cases in the SSBPA, while 66 per cent of the Irish cases

involved similar punishments. Economic consequences are thus imposed to a larger extent in the ICAI. However, the Authority had more types of sanctions at its disposal, with both small and large economic effects on the auditor.

Secondly, the results show an increase in process errors and different distribution of sanctions. The increase in process errors is substantial and implies that the profession violates the GAAS to a larger extent. The growth in process errors are however compensated by decreases in professional errors, and both process and professional wrongdoings. The large decline in professional errors suggests that auditors indeed are acting different professionally. Thus, the ethical codes, used to control the behaviour of the profession, seem to affect the auditors. Finally, as auditors made fewer errors including both categories of wrongdoings, the cases could, to a greater extent, be traced to one category.

Additional key findings concern specific categories of errors. Wrongdoings of type A, *error of judgement or execution when performing the audit*, are still the most frequent error in the disciplinary cases, and the proportion increased substantially in comparison with the previous period. The increase in A indicates deficiencies in the compliance with the GAAS. Furthermore, as the purpose of the audit review is to obtain support for the audit report, the increase in these errors implies that unreliable information about companies has been issued. *Lack of independence*, or category E, is the most common error of professional type but has decreased during the period.

In the previous study of disciplinary cases in Ireland, the most common error concerned defective professional indemnity insurances, an error of professional character. Secondly, violations of auditing standards occurred, which can be compared with wrongdoings of type A. Thirdly, the *lack of independence*, or errors of type E, were most frequent. The distribution of the most common errors in Ireland is in a broad sense similar. This suggests the shortcomings of the audit profession do not differ between these countries.

Audit quality involves the concepts knowledge and independence. Increase in errors concerning the audit process suggests poorer knowledge of the same, and thus, a decline in the probability of detecting accounting errors in the audit review. This ultimately leads to lower audit quality. Decrease in errors concerning lack of independence, on the other hand, increases the possibility of reporting errors and thus improves audit quality. It can further affect the reliability in the financial information from companies. The decline in these wrongdoings also decreases the risk of auditor acting in private interest, or the interest of the business management. Consequently, the quality of the audit is uncertain since the ultimate effect is ambiguous.

A small change in relation, but indeed important, is category D, *failure to report suspicion or criminal activities*, which increased over these periods. The obligation is legislated, and the fact that it has increased is therefore alarming. A report issued by the Swedish National Council for Crime Prevention (SNCCP) provided some insight to why this result can be seen. According to the publication, auditors are critical to the legislation since they perceive that it intrudes on the duty of confidentiality and a requirement outside of the auditor's normal audit activities. Further, knowledge of the obligation to report is low, and the preventive effect is

perceived to be small. The threshold for reporting a crime in the legislation is set low. In reality, 80 per cent of the auditors prefer to be at least 75 per cent certain that a crime has been committed, whilst one third would prefer a certainty of 95 per cent before reporting the crime to prosecutors.¹⁴⁸

Accordingly, auditors may consider the suspicion too weak, and therefore does not report the crime as the possible effects of an incorrect assessment seem too costly. The SSBPA, on the other hand, determines if an error was committed according to the definition in the SCA, which means that a gap between interpretations of the responsibility exists. The Supervisory Board of the SSBPA has further been accused of having too little practical experience of auditing since only two members are certified auditors.¹⁴⁹ It has been argued that this has resulted in extensive literal interpretations and little consideration for the environment auditors work in. This strengthens the view of a different understanding of the legislative demand.

One of the characteristics of the audit profession is self-regulation through the GAAS and the PEA. The review of disciplinary cases reveals that many auditors do not comply with these codes of conduct. This implies that the disciplinary process is not as an efficient form of social control as it should be. The study done by Shafer, Morris and Ketchand also confirms this. As mentioned above, their study investigated the deterrent effect of different disciplinary actions on auditors acting unprofessionally. The results revealed that threats of formal sanctions, by a supervisory authority, did not function as deterrence against unethical behaviour.¹⁵⁰

Expectations on the auditor as protector of public interest can be derived from Barber's theories of trust. Auditors are expected to act morally and use their special knowledge to satisfy the social responsibility incorporated in the role. The result of the empirical study implies that the auditors did not meet these expectations sufficiently. The consequence is a possible loss of public trust as the aim of the disciplinary process is to protect public interest. Further, the sanctions are intended to control the actions of the auditors by working as deterrence. The existence of disciplinary actions against misdemeanours is a result of distrust in the profession according to Dietz & Den Hartog, thus the level of deterrence-based trust.

Moreover, Powell & DiMaggio noted that organisations within a field became more alike over time which could help explain why auditors act in a specific way. By analysing the three aspects introduced by Scott, institutional theory brings out interesting features regarding this matter. Through regulative and coercive systems, required behaviours can be established. In order to follow legislative rules, auditors may act in a specific and similar manner. Additionally, essential norms and values within the audit profession provide guidance on how certain situations should be handled. FAR and International Federation of Accountants (IFAC) are major standard-setters in the industry, with the intention to create similar

¹⁴⁸ http://www.bra.se/extra/measurepoint/?module_instance=4&name=0409139622.pdf&url=/dynamaster/file_archive/050124/d651bbe4106e13d7ec07dba752a96428/0409139622.pdf

¹⁴⁹ <http://www.riksdagen.se/webbnav/?nid=3120&doktyp=forslag&bet=1999%2f2000%3aRR11>

¹⁵⁰ Shafer, Morris & Ketchand (1999), p. 97

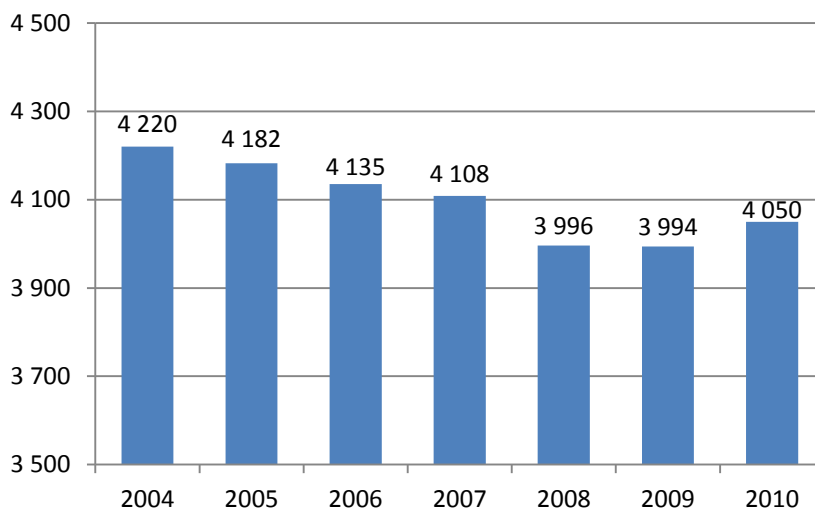
behaviours of auditors. Finally, if cultural-cognitive systems are established within organisations, shared beliefs and routines will create a manner that can be followed. In order to be perceived as professional and qualified, there are social approaches and codes of conduct within the audit profession which must be taken into consideration.

5.2 Relapses in the Disciplinary Cases between 2004 and 2010

Another interesting subject within the area of disciplinary actions, which Carrington left without regard, is the presence of relapses and recidivists. To investigate if recidivists are a major problem and if a different behaviour can be seen in the relapse, a study of auditors imposed with several sanctions was completed and presented below. In order to further evaluate if any essential similarities can be noted between the number of auditors and relapses occurred some statistical data was compiled.

The number of auditors in Sweden, both approved and authorised, during the years 2004 – 2010 is presented in the figure below. The number of auditors ranged between 4 220 to 3 994 during the period of seven years, with a mean of 4 098. The auditor body decreased from 2004 to 2009 but in the last year, an increase was once again established. The largest decrease was noted between 2007 and 2008, as 112 auditors lost their certification either in a disciplinary case or by own initiative.

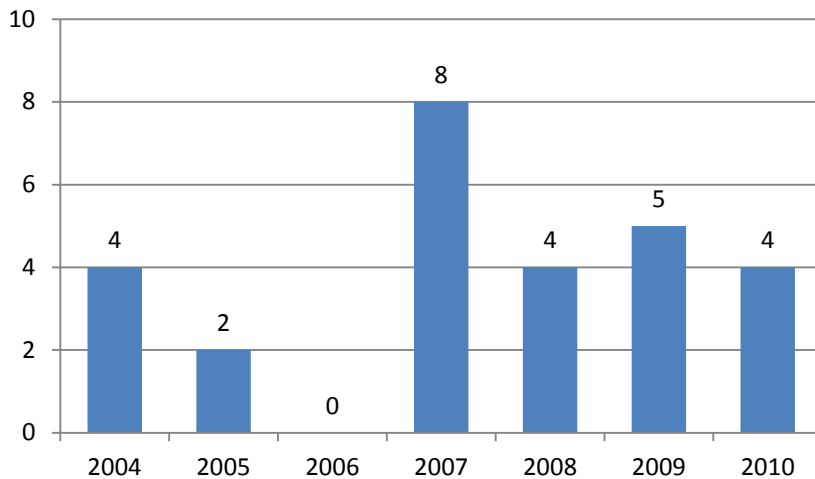
Figure 3 - Number of approved and authorised auditors in Sweden 2004 – 2010



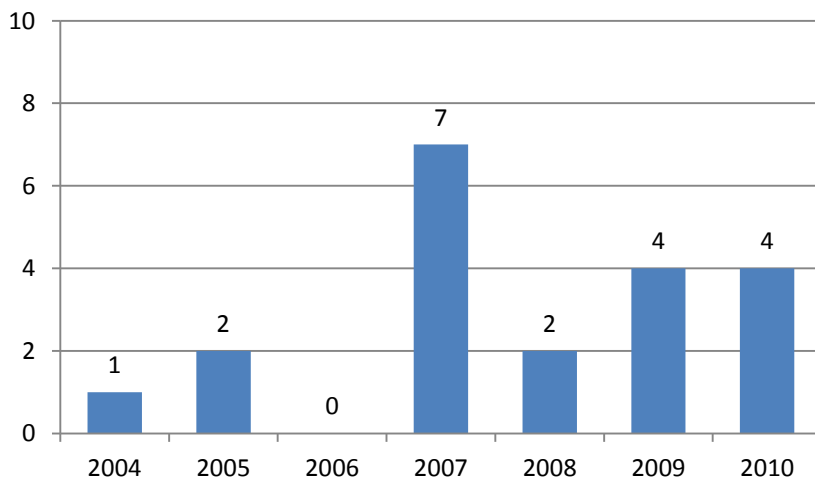
Source: The SSBPA¹⁵¹

At first, the authors investigated the number of disciplinary cases each year, which contained a relapse without connection to a specific auditor. The relapses between 2004 and 2010 are presented in the figure below. The number of relapses in the disciplinary cases sums up to 27 cases.

¹⁵¹ http://www.revisorsnamnden.se/rn/showdocument/documents/statistik/revisorskaren_1992_2010.jpg

Figure 4 - Number of relapses in the disciplinary cases 2004 – 2010

The authors further investigated how many auditors were repeat offenders and how many disciplinary cases were connected with a specific auditor. Of the 27 relapses found, seven of the cases were excluded from further investigation, as previously mentioned in the method. In three of the cases, the auditor did not cooperate with the SSBPA and received additional sanctions as the behaviour did not change. Consequently, the relapse concerned the same case and will not be included in the study. Furthermore, the relapses in four cases could be traced to auditors who had received several sanctions during this period of time. Thus, 20 cases of repeat offenders will be further analysed. The table below shows the number of repeat offenders during the period.

Figure 5 - Number of recidivists in the disciplinary cases 2004 – 2010

When investigating the cases individually, it appeared 48 cases were connected to these 20 auditors (see Appendix 2). The review further revealed that the auditors received between two to four sanctions. Warning was the most common sanction imposed as 35 of 48 cases, or 73 per cent, resulted in this punishment. The results showed that it were relatively few recidivists

during the period 2004 to 2010. Only 20 of approximately 4000 certified auditors in Sweden were subject to disciplinary procedures more than once. Furthermore, only 27 relapses were committed in the disciplinary cases during the same period, which is eight per cent of the 343 cases.

5.2.1 Errors in the Relapses and Case Studies

The authors found it interesting to review the relapses from three different perspectives when investigating the behaviour of recidivists. To provide a deeper understanding of the relapses, three case studies concerning each perspective were therefore made. The disciplinary sanctions imposed in these cases, as well as committed wrongdoings, are outlined. Finally, conclusions made by the authors are presented at the end of each case.

Number of errors in the relapses

At first, the authors wanted to investigate if any variations in the number of errors could be noted. A comparison between former wrongdoings and the latest relapse was made, and the results are shown in the table below.

Table 7 - Number of errors in the relapses (2004 – 2010)

Number of errors	Frequency	Per cent
More	8	40%
Equal	6	30%
Fewer	6	30%
Total	20	100%

The results show that the auditors committed more errors in the relapse in eight cases, which represents 40 per cent. Further, an equal or a decreased number of errors was made in six cases respectively. Consequently, 30 per cent of the repeat offenders decreased their mistakes in the relapses, but at the same time 70 per cent of the auditors committed just as many or more wrongdoings in the relapses. The result indicates that the majority of repeat offenders are not affected by the sanctions, but rather committing the same amount or even more types of errors afterwards.

The first case study presents a recidivist who committed more wrongdoings in the latest relapse. The auditor received two warnings before the authorisation was withdrawn. When analysing the wrongdoings, the auditor failed in one category the first and second time. Noteworthy, the third time, several wrongdoings were committed.

Figure 6 - Relapse containing more wrongdoings

D-number	Year	Process wrongdoings				Professional wrongdoings					Sanction
		A	B	C	D	E	F	G	H	I	
1996-1235	1997					x					Warning
2002-1596	2003	x									Warning
2005-605	2007	x	x			x				x	Withdrawal authorisation

1996-1235: The SSBPA initiated an investigation of A-son in connection with his application of continued authorisation. A-son violated the legislative rules regarding conflicts of interest when he wanted his employee to audit a company, in which A-son was the Director of the Board. The professional wrongdoing resulted in a warning as disciplinary sanction.

2002-1596: The SSBPA received a notification from the STA and decided to open another investigation. This time, A-son committed a process error when he relied on information from the business leader without any further follow-up. Furthermore, the audit report did not include essential information regarding the sale of the most important asset of the company. Finally, A-son had signed the report before the review was complete. The wrongdoings altogether lead to an incorrect execution of the audit and another warning was imposed.

2005-605: When the SSBPA was informed, partly by the STA, about incidents involving A-son, yet another investigation was initiated. As the notifications regarded different wrongdoings, four disciplinary cases were opened with a final overall assessment. Severe errors were found in the audits and the reviews of important items were deficient. The audit reports included major faults, and misleading information was found in one case. Moreover, A-son omitted to fulfil the obligations of acceptable documentation. The SSBPA further noted that A-son had retained an audit assignment where he was not independent. The circumstances were seen as extremely aggravating and no other solution than withdrawal of his authorisation was found.

Conclusion: The auditor received a warning in the first cases which involved a professional wrongdoing. The second time the auditor was convicted; the error was classified as a process wrongdoing. When the auditor violated the law again, both process and professional errors were committed. Consequently, it appears the auditor was not affected by the previous sanctions imposed. According to Carrington, a warning only results in shame as consequence for incorrect behaviour. The auditor is still allowed to continue working within the profession. Since a sanction of shame does not have economic consequences the career would not be affected to a larger extent. The deterrent effect is therefore less which might have contributed to the fact that he did not change his behaviour.

Same types of errors made in the relapses cases

Furthermore, the authors reviewed if recidivists committed same error every time or if they were sentenced for other wrongdoings in the relapse. Thus, the errors were categorised as before, according to Carrington's model, and the outcome is presented in the table below.

Table 8 - Same types of errors made in the relapse cases (2004 – 2010)

Same types of errors	Frequency	Per cent
Yes	3	15%
Partly	16	80%
No	1	5%
Total	20	100%

In three cases the same errors were performed in the relapse. Notably, in 16 cases partly the same errors were made, meaning the previous types of errors were once again committed but additional types of wrongdoings were also detected. Thus, the majority of the auditors repeated their mistakes, as the same errors were represented in 95 per cent of all cases. Finally, one auditor stood out as he performed different types of wrongdoings in the relapse. As recidivists often performed the same errors as before, including other types of wrongdoings as well, the deterrent effect of disciplinary sanctions can be questioned.

The second case study concerns a recidivist who committed errors of the same category every time. The auditor received three disciplinary sanctions before the SSBPA imposed the fourth and final sentence and withdrew the approval.

Figure 7 - Relapse containing the same wrongdoings

D-number	Year	Process wrongdoings				Professional wrongdoings					Sanction
		A	B	C	D	E	F	G	H	I	
2001-1099	2002	x									Warning
2003-318	2004	x									Reminder
2006-141	2007	x									Warning
2009-158	2009	x									Withdrawal approval

2001-1099: The SSBPA received a notification from the STA and decided to initiate an investigation. It was found that A-son should have remarked on the Board of Directors' noncompliance of the SCA. As A-son accepted the balance sheet and income statement, even though he knew about an incorrect bonus allocation, he breached his obligations. The error resulted in a warning as a disciplinary sanction.

2003-318: After a notification from the STA once again, A-son was investigated in order to determine whether he behaved professionally when auditing a limited company. The SSBPA found that the review of a vital debt was insufficient. Furthermore, A-son should have remarked on the inadequate handling of taxes and fees. The SSBPA noted that the auditor had received a previous warning, and after a deliberation a reminder was imposed.

2006-141: The SSBPA opened an additional disciplinary case after receiving a notification and reviewed the documentation of the audited limited company. The Authority emphasised that the audit review was not satisfactory enough, and A-son had failed to fulfil his obligations by not attaching the previous auditor's notification to the Swedish Companies Registration Office in the audit report. The SSBPA considered it severe that A-son had received both a reminder and a warning in previous disciplinary cases. Considering all circumstances though, A-son received another warning.

2009-158: The auditor was part of a review with the SOS, which resulted in a disciplinary investigation. The case included five assignments, incorrectly audited by A-son. A-son had not performed acceptable reviews when auditing essential items in the balance sheets and the consolidated statements of income. Furthermore, he had not made any comments regarding deficiencies in the administration reports in an appropriate way. Finally, the SSBPA observed

that A-son avoided remarking on a missing balance sheet for liquidation. The SSBPA thought it was remarkable that A-son had been under investigation three times before. With that in mind and due to the current case, the Authority considered a withdrawal of the approval was the most appropriate sanction.

Conclusion: A-son received a complaint regarding his audit reviews three times before his certification of approval was withdrawn. Even though every case is unique several similarities are possible to distinguish. It was clear that the auditor had problems when auditing the companies, as all errors can be classified within the same category, *error of judgment or execution when performing the audit*. Moreover, the result implies that the sanctions had no impact on his professional behaviour and therefore no deterrent effect was noted.

Type of errors committed by the repeat offenders

Moreover, the authors wanted to investigate if a specific type of error could be distinguished. The wrongdoings were divided into the main categories process and professional wrongdoings. When analysing the cases, it was revealed that some auditors had been sentenced for several and sometimes different errors in the relapse.

Table 9 - Type of errors by the repeat offenders (2004 – 2010)

Type of error	Frequency	Per cent
Process	5	25%
Professional	2	10%
Both	13	65%
Total	20	100%

Auditors usually committed both process and professional wrongdoings as 13 cases, or 65 per cent, showed this behaviour. Further, two auditors committed only professional wrongdoings while five auditors instead received complaints for process failures only. Thus, the results show that the auditors lacked knowledge in both areas.

The third case study presents a recidivist who committed both process and professional wrongdoings in the relapse. The second time the auditor received a disciplinary sanction by the SSBPA, the approval was withdrawn.

Figure 8 - Relapse containing both process and professional wrongdoings

D-number	Year	Process wrongdoings				Professional wrongdoings					Sanction
		A	B	C	D	E	F	G	H	I	
2004-583	2004	x	x	x		x					Warning+fine
2006-1556	2007	x	x			x					Withdrawal approval

2004-583: After being subject to a SOS investigation, the SSBPA decided to further evaluate the professionalism of A-son. The Authority concluded that A-son had failed in several

aspects and that he had not performed an acceptable review. It was further clear that vital items were not included in the audit and that A-son had not attended the inventories. Moreover, the documentation was defective and the audit lacked essential risk analysis. Since A-son had been part of unlicensed constellations, the SSBPA concluded that A-son should have resigned the assignments as a risk of conflict of interest existed. When summarising the errors committed, the Authority decided a warning with a fine were the appropriate sanction.

2006-1556: A-son was once again subject for a SOS investigation which ultimately brought forth further review by the SSBPA. The Authority reviewed seven assignments and the audit was found unacceptable in every case. A-son could not prove that a review of the inventory had been made and he had not remarked on critical items in the audit reports. As A-son only visited some of the companies a few times, he had not been present often enough to be able to provide the reports. The documentation was extremely defective and missing in two of the assignments and could therefore not support the statements in the audit reports. Finally, A-son had disturbed the confidence regarding his impartial behaviour. The Authority found it remarkable that the auditor had almost made the same mistake once again. Moreover, the later errors were seen as worse, which resulted in a withdrawal of his approval.

Conclusion: The errors were similar in the two disciplinary cases and included both process and professional wrongdoings. As the auditor did not change his professional conduct, even though a sanction was imposed, it is clear that A-son was not affected. This is, once again, a result that shows how a disciplinary sanction, at first, only causes shame. However, the auditor was also judged to render a fine, which as well did not give any deterrent effect. Apparently, some auditors will never be affected by sanctions that enable continued pursuance.

5.2.2 Summary and Analysis of Interesting Observations

The empirical study revealed that repeat offenders have not been commonly occurring in the reviewed period. Thus, the result indicates that the auditors changed their behaviour, as the majority of the auditors who received a disciplinary sanction did not repeat the crime. Further, no immediate relationship between the amount of auditors and recidivists per year were noted. The number of repeat offenders is thus relatively constant which could indicate that recidivists are an issue which is not easily prevented or reduced by disciplinary sanctions alone. The problem might be reduced if the SSBPA pursued more active supervision, or if the profession established other forms of quality control.

Since the audit profession applies self-regulation, it is responsible for establishing quality, ethical codes and norms to follow. Thereby, the SSBPA controls the propensity to act according to prescribed standards. The fact that few repeat offenders were exposed, suggests the SSBPA successfully developed good practices amongst auditors. The need for a harsher system of punishment is therefore not obviously seen. Although, deterrence-based trust is essential since the public want to be assured that the surveillance system is reliable and ultimately deter future crimes. Thus, the outlined results show that the sanctions influenced auditors' behaviour in most cases. This enhances the credibility of the audit profession in their role as supervisors of ethical conduct among members. However, the fact that repeat

offenders exist may reduce trust for both the profession and the existing surveillance system. Since auditors were linked to several relapses, the intended effects of the sanctions may be questioned.

The empirical study shows the committed errors and the behaviour of auditors in the relapses. It was discovered that the repeat offenders rarely reduced, but rather increased the number of errors committed in the relapse. The findings further revealed that the same categories of wrongdoings were committed which means that the recidivist made the same error, in some cases, more than twice. Finally, the repeat offenders commonly made both process and professional wrongdoings in the relapse. The results indicate that the majority of recidivists committed more serious offences in the relapse and thus were not affected by the sanctions received.

Obviously, the auditors did not comply with the GAAS as well as the PEA in the relapse, and did not follow the ethical codes of the profession. The GAAS concerns the way a proper audit should be performed while the PEA demonstrates how auditors should behave professionally. Since professional behaviour and ethical conduct are stressed as essential components within the PEA, a relapse contradicts the purpose of the norm. Thus, it indicates that the recidivists lack knowledge and respect within this area, as the norms were repeatedly violated. The presence of cases containing same type of wrongdoing further indicates that the recidivists have poor knowledge of the requirements of a satisfactory audit. Consequently, the audit quality can be considered as low since the obtained results indicate serious deficiencies in the knowledge of auditors as the same errors were committed again. But also the severe violations of the GAAS and the PEA result in a lower audit quality since both process and professional wrongdoings were made. The findings finally point toward a possible deficiency in the disciplinary system and poor effectiveness of the sanctions imposed.

The three characteristics of a trustworthy person, stated by Johansson et al., can be derived to an auditor. Firstly, auditors are able to solve emerged problems in a sufficient audit since they are intellectual and possess special knowledge. Secondly, the integrity required, which independence entails, increases the confidence in the auditor acting correctly. Finally, the audit profession have a pronounced responsibility to act in public interest, and thus, put the interest of society before their private. In some circumstances it may be difficult for an auditor to make the most accurate assessment, but the responsibilities arising with the statement to act in the public interest, indicate the proper behaviour. If an auditor nevertheless acts faulty, it could result in untrustworthiness. Consequently, recidivists show themselves as not trustworthy and hurt the reputation of the whole profession.

To further analyse the behaviour of repeat offenders, some interesting features were revealed in a report by the SNCCP, which referred to the works of Fisse and Braithwaite from 1988. The report highlights three different actors within an organisation, who either commit crimes or prevent them: “tough actors who cannot be deterred by severe punishments, weak actors who can be deterred by severe punishments and vulnerable actors who may be deterred by the shame they will experience if they are discovered not having fulfilled their responsibilities,

which they are presumed to bear.”¹⁵² Repeat offenders can thus be seen as tough actors who are not affected by disciplinary sanctions as they continued to commit errors. According to the report, a business operation involves several relations such as “legal framework, individuals, governments and institutions”.¹⁵³ To prevent crimes, it is thereby important to take advantage of all these relations. When discussing the incident and consequences in larger groups, the punishment will not only reach tough actors. The messages could also reach weaker and vulnerable individuals who are able to affect operations in a positive direction. As the SSBPA publish all disciplinary cases on their website, other auditors might learn from already committed mistakes. However, the publications are anonymous, so the auditors who failed in their assignments are never exposed to the public. Noteworthy, auditors who receive sanctions of shame will not be affected professionally, especially not since they do not come to public display. Thus, the sanction will not demand a changed behaviour by itself.

According to Scott, several elements influence organisations which ultimately affect the individuals concerned. Through the three institutional pillars – including regulative, normative and cultural-cognitive systems – auditors are influenced to act in particular manners. However, the repeat offenders showed atypical behaviours, which suggests that they did not comply with the existing norms within the audit profession. By introducing stricter legislation, auditors could possibly be influenced to act in a more uniform manner, as the allowance for interpretations would reduce. However, statutory regulation contradicts the characteristics of a profession which is defined by “the absence of regulatory legislation and the reliance by the community upon the profession to regulate itself”.¹⁵⁴ Thus, the profession would lose the control of itself. The dilemma concerning recidivists might not be an easy task to handle, but yet important, to maintain trust in the audit profession.

¹⁵² http://www.bra.se/extra/measurepoint/?module_instance=4&name=0409139622.pdf&url=/dynamaster/file_archive/050124/d651bbe4106e13d7ec07dba752a96428/0409139622.pdf, p. 9f.

¹⁵³ Ibid, p. 9

¹⁵⁴ Brien (1998), p. 393

6 Conclusions and Final Discussion

In this chapter conclusions drawn from the empirical study are specified, for the purpose of answering the research questions. Additionally, a final discussion describes the authors' conclusions in a wider perspective. Finally, practical implications and suggestions for further studies are presented.

6.1 Answers to Research Questions

Which trends in the disciplinary cases can be inferred between two periods of time, if any?

The review of the disciplinary cases between 2004 and 2010 revealed both similarities and differences in comparison with the period of 1995 to 2003. First, the results showed a significant increase in process wrongdoings which indicate an escalation of violations against the GAAS and thus a poorer knowledge of the audit process. Further on, the findings revealed a different allocation of sanctions. Withdrawals had the same share as before, but the proportion of warnings decreased and, consequently, reminders increased. Finally, disciplinary cases regarding errors of judgement or execution when performing the audit increased, while the share of wrongdoings concerning lack of independence decreased. The differences in specific errors thus implied contradicting effects on audit quality.

Are recidivists a major problem and can a different behaviour of the auditor be seen in the relapse?

The review revealed that repeat offenders were not a commonly occurring feature in the investigated period. It appeared that the relapses were connected to 20 recidivists, a small proportion in relation to the auditors who received a disciplinary sanction. Additionally, different patterns of the wrongdoings were noted amongst the recidivists. The majority of these auditors committed either as many or more errors in the relapse. Furthermore, in several cases the same types of wrongdoings were committed once again. It was finally observed, that a combination of both process and professional wrongdoings usually occurred. However, the results showed that the majority of auditors who once received a disciplinary sanction were affected by it as only a few auditors relapsed into crime. On the other hand, the majority of the repeat offenders were not affected by the sanctions imposed, as a different behaviour was not seen in the relapse.

How can a supervisory authority affect the professional behaviour of the auditor and thereby ensure quality in auditing?

A supervisory authority can affect the professional behaviour of auditors, and ensure quality in auditing, in two ways. At first, an authority can develop auditing norms and principles of professional ethics which provides a framework for the audit profession. Secondly, the Authority can practice supervision through disciplinary actions, with sanctions as

enforcements, to deter auditors from breaching the laws. The system further evaluates the requirements of the norms in the disciplinary cases and thereby enacts incorrect behaviours and actions. Moreover, the level of audit quality achieved depends upon the knowledge and independence of the auditor.

The SSBPA is responsible, according to the SAA, for developing the GAAS and the PEA in an appropriate manner. Since the norms do not provide explicit criteria of how they can be achieved, indicative standards are thus required to ensure auditors comply with the professional conduct and procedures of auditing. In Sweden, FAR has pronounced standards which are guidelines for practicing auditors and the SSBPA in their assessments.¹⁵⁵ The formal prescripts and issued practice from the SSBPA are as well essential means to clarify the norms.¹⁵⁶ Comparing the wrongdoings committed, the empirical study revealed some interesting features as well as trends in the disciplinary cases. Process wrongdoings increased in the later period which thus implies that the auditors failed to perform the audit satisfactory. The obligations in the audit process were not handled appropriately and the actions entailed a violation of the GAAS. Moreover, professional wrongdoings decreased over the periods which indicate that the auditors changed their professional conduct. Accordingly, the auditors altered their apprehension of the importance of the PEA and thus the professional behaviour. As the norms and standards intend to define the required knowledge and independence, they are fundamental in determining audit quality.

The SSBPA is further responsible for disciplining auditors and impose punishments to offenders. The three sanctions - withdrawals, warnings and reminders - shall have deterrent effects and thereby encourage compliance with the GAAS and the PEA. The study of the repeat offenders further examined the deterrent effect of disciplinary sanctions. In the investigation, few auditors were convicted more than once which suggest that the sanctions have the intended effect on the offenders. However, the results show that the majority of the revealed recidivists were not affected by the sanction imposed. In contrary, several repeat offenders committed more serious crimes. The findings may therefore question the functionality of the disciplinary system and the deterrent effect of the sanctions. In conclusion, the disciplinary actions control whether the auditors possess sufficient knowledge and independence to obtain audit quality.

Consequently, this study indicates that the SSBPA has the ability to influence the behaviour of auditors through standards and disciplinary actions. However, the study indicates there are areas which need improvements in order to be satisfactory. The capability to ensure audit quality may nevertheless be questioned as the results show limited abilities of the sanctions to deter crimes.

¹⁵⁵ http://www.far.se/pls/portal/docs/PAGE/FAR_2010/BRANSCHEN/GOD_REVISIONSSED/GOD%20REVISIONSSED%20RS%20P%201-6.PDF

¹⁵⁶ http://www.revisorsnamnden.se/rn/om_rn_4706.html

6.2 Final Discussion

The empirical study revealed that the *error of judgement or execution when performing the audit*, expressed as category A, was commonly occurring in the wrongdoings committed. As, the category involves several types of errors in auditing, it is difficult to detect exactly where the deficiencies take place. Through a distinct division, a more defined result could be contributed as a future guideline. Since this type of error occurred to such large extent, the assurance of audit quality will be further questioned. The result suggests that auditors lack sufficient knowledge to make right decisions and execute an accepted audit. Furthermore, the legislator states that the GAAS and the PEA shall be followed which are frameworks requiring extensive assessments. Thus, a more distinct framework can entail an unambiguous approach within the audit profession. However, strict regulations contradict the features of a profession which is defined through lack of regulatory legislation.

Additionally, *lack of independence*, mentioned as category E, was most frequently occurring among the professional wrongdoings. However, an obvious decrease was noticed which indicates a changed behaviour of the auditors. In recent years, independence of auditors has been further expressed as an essential feature of the profession. Both legislators and society, through the revised Eight Directive, the recommendation *Statutory Auditors' Independence in the EU* from the Committee on Auditing as well as media, have contributed to increased emphasis of the matter. The public could thus have influenced the profession in a certain direction. Auditors may therefore be independent *in fact* to a larger extent since a different knowledge around the regulations is present. Auditing scandals which discredit the entire profession might though affect the credibility of auditors. Even if the auditors are independent in fact, they might not be perceived as it since the independence *in appearance* could lack confidence.

When investigating repeat offenders, only a few auditors were subject to additional investigations of crime. However, a high number of unreported offences are not unlikely. In particular since the SOS function only performs a subsequent control of auditors who, in previous disciplinary decisions by the SSBPA, had very serious deficiencies in their audit operations.¹⁵⁷ Obviously, auditors who committed less severe offenses are thus not included and will not be subject of these investigations later on. With this in mind, the fact that sanctions of shame do not necessarily affect disciplined auditors, persisting erroneous behaviours cannot be excluded. A prerequisite to prevent future crimes and ensure audit quality would thus be an extended active supervision, such as the SOS activities. By investigating additional critical auditors and areas, the Authority may actively strive for quality improvements within the profession. Further, recidivists do not act as a righteous professional since they ignore the social responsibilities and do not comply with ethical codes. Consequently, presence of repeat offenders may cause bad reputations and thus diminished trust of the audit profession.

¹⁵⁷ http://www.revisorsnamnden.se/rn/tillsyn/las_mer_om_systematisk_och_uppsokande_tillsyn_och_kvalitetskontroll.html

When dealing with recidivists, it can be discussed whether the system of sanctions is sufficient enough. According to the SSBPA, a warning is imposed when assignments are severely neglected and will result in withdrawal of approval or authorisation if repeated. As the majority of recidivists received warnings several times without withdrawn certifications, an interesting attendant question concerns how many sanctions an auditor actually can be imposed without losing the approval or authorisation? Relapses should perhaps be treated more seriously and thereby result in tougher punishments at an earlier stage.

However, it can be discussed if tougher punishments would deter crimes in the long run. As sanctions of shame do not have economic consequences for auditors, the question arises whether the disciplinary system should include other types of punishments with more distinct effects. As previously mentioned, Ireland has several types of sanctions, summarised in reprimands, fines or membership exclusion. Fines and suspensions are further used to accomplish the deterrent effects. Shafer, Morris & Ketchand concluded, however, that the risk of disciplinary actions was not effective as deterrence against unethical behaviour. Consequently, constructing a well-functioning and deterrent supervisory system is not an easy task, but yet essential.

The fact that just a few auditors relapsed into crime suggests, however, that the sanctions are effective. Another possible explanation involves the profession which may sufficiently control the auditors with the ethical codes. In that case, the auditors correct themselves according to the codes of conduct and the question of deterrent effect never arises. If the codes are implemented efficiently, auditors would not endanger their positions but rather try to avoid violations. According to Powell & DiMaggio, organisations become more like their peers over time, an approach which might clarify why certain behaviour is established. Further commitments could, however, be needed to convince the public that their interest is followed.

When auditing scandals occurs, several basic characteristics within the audit profession are affected. As uncertainties prevail, trust can decrease and audit quality as well as professional conduct can be further questioned. In addition, the profession needs to prove the self-regulation to be effective and thus capable to implement codes of ethics. As Dietz & Den Hartog argued, when distrust exists, the behaviours are controlled by sanctions and threats. It is therefore essential to create a system of sanctions considered reliable to maintain the trust. To regain a higher level of trust, the benefits of trust have to increase, possibly through more efficient markets. The alternative is to reduce the costs by less frequent and severe auditing scandals. To further reach even higher levels of trust, the public has to possess knowledge of how the profession acts under specific circumstances to be able to trust them. Through effective ethical codes and positive experiences, the behaviour of auditors could be predicted and stronger trust would thereby be achieved. However, to reach a strong and complete trust it is necessary to identify reliable persons and establishing trustworthy relationships. Since the profession includes thousands of auditors, such high level of trust may therefore be difficult to achieve. Consequently, disciplinary sanctions are probably a prerequisite to ensure that the public interest is followed.

In summary, the SSBPA faced harsh criticism during the autumn of 2010. The public questioned the responsibilities of auditors and the trustworthiness of the audit profession. Noteworthy, this thesis identified some interesting features regarding the behaviour of repeat offenders as well as implications of which areas that are considered to be defective. In order to identify potential improvements and increase public trust, these aspects could thus be interesting for a possible prospective development of the Authority.

6.3 Practical implications

The result of this study can provide insight into the areas of auditing which are deficient. Through this, the SSBPA can obtain knowledge of what sections they should concentrate on when performing the supervision. Further, the in-depth review of relapses gives the SSBPA a perception of the behaviour and characteristics of a repeat offender. The public, and practising approved and authorised auditors, can get a better understanding of actions and behaviours in the audit profession. Finally, the practising auditors can obtain insight to what peers have done wrong and, through this, improve their own business.

6.4 Suggestions for Further Studies

During the work process, a few interesting questions have arisen that could not be treated within the framework of this study. Initially, a more in-depth investigation of the organisation within the SSBPA would be interesting to perform, which could concentrate on knowledge and independence of the members. Further on, the quality control in the SOS function together with the inspection performed by FAR could be evaluated on the basis of knowledge, independence and effectiveness. Finally, an extended study regarding recidivists, including interviews with repeat offenders and the SSBPA, could be made to further explore their behaviour.

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Legislation

Swedish Auditing Act (1999:1079)

Swedish Auditors Act (2001:883)

Swedish Companies Act (2005:551)

Appendices

Appendix 1: Disciplinary Cases 2004 – 2010

A: Error of judgement or execution when performing the audit
B: Insufficient documentation
C: Insufficient or inadequate planning or risk assessment
D: Failure to report suspicion of crime
E: Lack of independence
F: Shortcoming in the audit firm organisation
G: Not cooperating or resisting the SSBPA's investigation
H: Not having paid the fee to, or properly registered with the SSBPA
I: Unprofessional conduct

SC = Several Cases
STA = Swedish Tax Agency
SSBPA = Swedish Supervisory Board of Public Accountants
SOS = Systematic and Outreaching Supervision
* = same case

Dnr	SC	Year	Source	A	B	C	D	E	F	G	H	I	Sanction	Relapse
2001-269		2004	Notification	x									Warning	
2001-724	x	2004	Notification	x	x								Withdrawal appr	
2001-1423	x	2004	Notification	x				x					Warning	
2003-464		2004	Notification	x									Reminder	
2003-614		2004	Notification	x									Warning	
2003-824		2004	SOS	x	x	x		x					Withdrawal appr	
2003-1366		2004	SOS	x	x								Warning	
2001-721		2004	STA	x								x	Warning+fine	
2002-628	x	2004	Notification	x									Warning	
2002-947		2004	STA	x									Reminder	
2002-1040		2004	STA					x					Warning	
2003-1458		2004	SOS	x		x		x					Withdrawal appr	
2003-1531		2004	SSBPA									x	Reminder	
2001-677	x	2004	Notification	x									Withdrawal auth	
2002-102		2004	Notification	x									Warning	
2002-452		2004	STA	x	x							x	Withdrawal appr	
2002-1731		2004	STA	x									Reminder	
2003-318		2004	STA	x									Reminder	Warning
2003-347		2004	STA	x									Reminder	
2003-1493		2004	SSBPA					x					Warning	
2004-314		2004	SOS	x	x			x					Warning	
2004-323		2004	SOS	x				x					Withdrawal appr	
2003-684	x	2004	Notification	x									Reminder	
2003-754		2004	Notification	x									Warning	Reminder
2004-28		2004	Notification									x	Warning	Reminder
2004-325		2004	STA	x									Reminder	
2004-339		2004	SOS	x	x			x					Warning	
2004-583		2004	SOS	x	x	x		x					Warning+fine	
2003-1291		2004	SSBPA							x			Withdrawal appr	Warning*
2003-1322		2004	Notification	x									Reminder	
2003-1329		2004	STA	x									Warning+fine	
2004-140		2004	SSBPA	x				x					Warning	
2004-367		2004	SSBPA									x	Warning	
2004-556		2004	SOS	x	x	x		x					Warning	
2003-710		2004	STA	x	x								Warning	
2004-847		2004	SOS	x	x			x					Warning+fine	
2002-1368		2004	STA	x	x								Reminder	

2003-566		2004	STA	x									Reminder	
2003-1113		2004	STA	x	x	x							Warning	
2004-349		2004	Notification	x	x			x					Reminder	
2004-491		2004	Notification									x	Reminder	
2004-70		2005	SSBPA					x					Reminder	
2003-1383	x	2005	STA	x	x								Warning+fine	
2004-257		2005	Notification	x									Reminder	
2004-658		2005	Notification									x	Warning	
2004-789		2005	Notification									x	Reminder	
2004-109		2005	STA			x							Reminder	
2004-592		2005	Notification	x									Reminder	
2004-723		2005	STA	x	x			x					Warning	
2004-1297		2005	SOS	x		x		x	x			x	Withdrawal auth	Warning, Warning
2004-1342		2005	SSBPA					x					Reminder	
2005-106		2005	SOS	x				x	x				Warning	
2003-1316		2005	SSBPA	x	x								Warning	
2003-1402		2005	SSBPA	x	x								Warning	Warning
2004-88	x	2005	STA					x	x			x	Withdrawal appr	
2004-621		2005	STA	x									Warning	
2004-717		2005	Notification									x	Reminder	
2004-779		2005	SSBPA	x				x					Withdrawal auth	
2004-1621		2005	SOS	x									Withdrawal appr	
2005-87		2005	SSBPA					x					Warning	
2003-1313		2005	Notification	x	x								Withdrawal appr	
2004-99	x	2005	STA	x	x			x				x	Withdrawal appr	
2004-790		2005	Notification	x									Reminder	
2004-1291		2005	STA	x									Reminder	
2004-1589		2005	SOS	x									Warning	
2005-645		2005	SOS	x				x					Withdrawal appr	
2004-165		2005	STA	x									Warning	
2004-659		2005	STA	x									Warning	
2004-699		2005	STA	x									Reminder	
2004-778		2005	SSBPA	x	x			x					Warning	
2004-1372		2005	STA	x									Warning	
2004-1433		2005	Notification	x									Reminder	
2004-1556		2005	Notification	x									Reminder	
2004-1599		2005	Notification	x									Warning	
2005-666		2005	SSBPA					x					Warning	
2005-891		2005	SOS	x		x							Warning	
2004-646		2005	Notification	x									Reminder	
2004-1343		2005	STA	x									Reminder	
2004-1505		2005	Notification		x			x	x				Warning	
2004-1392		2005	SSBPA	x	x	x							Warning	
2004-1645		2005	STA	x									Reminder	
2005-614		2005	SSBPA	x	x	x		x					Withdrawal appr	
2005-1400		2005	SOS	x	x			x					Withdrawal appr	
2004-645		2005	Notification	x	x								Warning	
2004-669		2005	Notification	x									Reminder	
2004-776		2005	SSBPA	x	x								Warning	
2004-913		2005	STA	x									Reminder	
2005-363		2005	SSBPA	x	x								Withdrawal appr	
2005-462		2005	Notification									x	Reminder	

2005-789		2005	STA								x									Warning		
2005-923		2005	Notification	x																	Warning	
2005-1172		2005	SOS	x	x																Warning	
2005-1459		2005	SOS							x	x										Reminder	
2003-771		2006	Notification	x																	Warning	
2003-1375		2006	SSBPA	x	x																Warning	
2005-362		2006	SSBPA	x	x					x											Withdrawal appr	
2005-1581		2006	SOS	x						x										x	Warning	
2005-698		2006	SSBPA	x		x															Warning	
2005-699		2006	SSBPA	x	x	x															Warning	
2005-1614		2006	SOS	x	x																Warning	
2005-1683		2006	SOS	x	x					x											Warning	
2005-1730		2006	SOS	x	x					x											Warning	
2003-1267	x	2006	STA	x	x					x											Withdrawal appr	
2004-1463		2006	Notification	x																	Warning	
2005-615		2006	SSBPA	x	x						x										Warning	
2005-640		2006	Notification	x																	Warning	
2005-738		2006	STA	x																	Reminder	
2005-739		2006	STA	x																	Reminder	
2005-1705		2006	SOS	x	x																Warning	
2006-461		2006	SOS							x	x									x	Warning	
2003-1308		2006	Notification	x	x																Reminder	
2003-1318		2006	STA							x										x	Warning	
2003-1319		2006	STA	x																	Warning	
2004-96		2006	STA	x																	Warning	
2004-111		2006	SSBPA	x																x	Warning	
2004-1649	x	2006	STA	x																	Warning	
2005-121	x	2006	STA	x						x											Warning	
2005-675		2006	STA	x																	Reminder	
2006-505		2006	Notification		x					x											Reminder	
2003-1268		2006	STA																	x	Reminder	
2004-1630		2006	STA	x																	x	Warning
2004-1289		2006	STA	x																	Warning	
2005-1508		2006	STA	x		x															Warning	
2005-1556		2006	Notification																	x	Reminder	
2006-529		2006	SOS	x						x											Warning	
2006-579		2006	STA	x																	Reminder	
2006-635		2006	Notification																	x	Reminder	
2004-1660		2006	STA	x																	Warning	
2005-1505		2006	Notification																	x	Reminder	
2005-1735		2006	SOS							x											Reminder	
2006-751		2006	SOS	x						x											Warning	
2006-847		2006	SOS	x																	Warning	
2006-981		2006	Notification	x																	Warning	
2004-1484		2006	STA	x																	Warning	
2005-559		2006	STA	x	x																Warning	
2005-795		2006	STA	x						x											Warning	
2005-610		2006	Notification	x																	Reminder	
2005-1381		2006	Notification	x																	Reminder	
2006-241		2006	STA	x																	Reminder	
2006-482		2006	STA	x																	Reminder	
2006-757		2006	SOS	x						x											Warning	

2007-927		2008	SSBPA	x	x			x	x			Warning	
2007-1690		2008	STA	x	x							Warning	
2008-584		2008	Notification	x	x							Warning	
2008-591		2008	SSBPA					x	x			Reminder	
2007-1493		2009	Notification	x								Warning	
2007-1494		2009	Notification	x								Reminder	
2007-1571		2009	Notification	x								Withdrawal auth	
2007-1581		2009	STA	x								Warning	
2008-33		2009	SSBPA	x	x							Warning	
2008-65		2009	STA								x	Warning	Warning
2007-730		2009	Notification	x								Reminder	
2007-1672		2009	SSBPA	x	x			x				Warning	
2008-617		2009	STA	x								Reminder	
2008-685		2009	SSBPA	x								Warning	
2008-805		2009	SOS	x								Reminder	
2008-1549		2009	Notification					x				Warning	
2009-456		2009	SSBPA	x								Warning	
2007-919		2009	Notification	x								Warning	
2008-250		2009	SSBPA	x	x			x				Warning	
2008-745		2009	STA								x	Warning	
2008-1502		2009	Notification	x								Reminder	
2009-158		2009	SOS	x				x				Withdrawal appr	Warning, Reminder, Warning
2007-1528	x	2009	STA	x								Warning	
2007-925		2009	SSBPA	x	x							Warning	
2007-1056		2009	STA	x								Warning	
2007-1691		2009	STA	x								Warning	
2008-34		2009	SSBPA	x	x			x				Warning	
2009-30		2009	SSBPA								x	Warning	Warning
2009-157		2009	SOS	x	x							Warning	Warning+fine
2009-313		2009	SOS	x	x				x			Withdrawal auth	
2009-555		2009	SOS	x								Warning	
2009-645		2009	SSBPA					x				Reminder	
2009-437		2009	SOS	x								Warning	
2008-112	x	2009	SSBPA	x	x			x	x			Withdrawal appr	
2008-347		2009	Notification	x								Reminder	
2008-1332		2009	Notification					x				Reminder	
2008-1489		2009	SSBPA	x	x							Warning	
2008-548		2009	Notification	x								Reminder	
2008-1249		2009	STA	x								Warning	
2009-809		2009	SOS	x	x			x				Warning	
2008-1391		2009	SSBPA	x	x	x		x				Withdrawal appr	
2008-652		2009	SSBPA	x								Warning	
2009-660		2009	SOS	x								Warning	
2008-578		2009	STA	x								Warning	
2008-264		2009	STA	x	x							Warning	Warning
2008-1508	x	2009	Notification	x							x	Reminder	
2009-1578		2009	SSBPA					x				Warning	
2008-1273		2009	SSBPA	x	x							Withdrawal appr	
2009-767		2009	Notification						x			Reminder	
2009-749		2009	Notification					x				Reminder	
2008-702		2009	Notification	x								Reminder	
2008-695		2009	Notification	x								Warning	

2009-989		2009	SOS	x	x													Warning	
2008-587		2010	STA	x	x													Warning	
2009-66		2010	SSBPA					x										Warning	Warning
2008-648		2010	STA	x														Warning	
2009-501	x	2010	Notification	x														Reminder	
2008-1468		2010	SSBPA	x	x												x	Withdrawal appr	
2008-1518		2010	STA	x				x										Warning	
2010-140		2010	SSBPA														x	Withdrawal auth	Warning, Warning
2008-1421		2010	Notification	x														Warning	
2009-477		2010	Notification	x														Reminder	
2008-1509		2010	STA	x														Reminder	
2008-1542		2010	STA	x														Reminder	
2008-1294		2010	Notification	x														Warning	
2008-1458		2010	SSBPA	x	x													Withdrawal appr	
2008-677		2010	STA	x														Warning	
2008-1263		2010	Notification	x														Reminder	
2009-1451		2010	SSBPA	x														Warning	
2009-1814		2010	Notification														x	Reminder	
2010-425		2010	SSBPA							x								Reminder	
2009-47		2010	Notification	x														Warning	
2009-1679		2010	Notification														x	Reminder	
2009-1841		2010	SSBPA															x	Warning
2010-142		2010	SSBPA															x	Warning
2010-443		2010	SSBPA							x								Warning	
2010-94		2010	STA	x				x										Warning	
2010-403		2010	Notification	x														Warning	
2009-1827		2010	Notification	x														Reminder	
2010-170		2010	Notification	x				x										Reminder	
2010-813		2010	SOS	x														Warning	
2009-616		2010	STA	x														Warning	Warning
2010-835		2010	SSBPA									x						Reminder	
2008-1448		2010	Notification	x														Reminder	
2010-575		2010	SOS	x														Warning	
2009-489		2010	SSBPA	x														Warning	
2010-61		2010	STA	x	x			x										Withdrawal auth	Warning
2009-1833	x	2010	Notification	x														Reminder	
2009-1598		2010	Notification	x														Reminder	
2010-682		2010	SOS		x													Warning	
2009-1420		2010	Notification	x				x										Reminder	
2009-1612		2010	Notification	x														Reminder	
2010-112		2010	Notification	x														Warning	
2009-668		2010	Notification	x														Warning	
2010-697		2010	SOS	x	x	x												Withdrawal appr	
2009-918		2010	SSBPA	x														Warning	
2010-95		2010	Notification	x														Warning	
2009-890		2010	STA	x														Warning	
343																			27
				278	94	22	8	78	15	3	0	48							

Appendix 2: Relapses 2004 – 2010

A: Error of judgement or execution when performing the audit	E: Lack of independence
B: Insufficient documentation	F: Shortcoming in the audit firm organisation
C: Insufficient or inadequate planning or risk assessment	G: Not cooperating or resisting the SSBPA's investigation
D: Failure to report suspicion of crime	H: Not having paid the fee to, or properly registered with the SSBPA
	I: Unprofessional conduct

STA = Swedish Tax Agency SSBPA = Swedish Supervisory Board of Public Accountants SOS = Systematic and Outreaching Supervision

	Dnr	Year	Source	A	B	C	D	E	F	G	H	I	Sanction	Same error	Amount of errors	Process/ professional
1	2004-28	2004	Notification									x	Warning	Yes	Equal	Professional
	2003-312	2003											x			
2	2004-1297	2005	SOS	x	x			x	x			x	Withdrawal auth	Partly	More	Both
	SNBT	1979		x									Warning			
	SNBT	1990								x			Warning			
3	2003-1402	2005	SSBPA	x	x								Warning	Partly	Equal	Both
	1997-807	1999			x				x				Warning			
4	2004-868	2007	STA									x	Withdrawal auth	Partly	Fewer	Both
	1995-183	1999		x	x	x							Warning			
	1998-1010	2001		x	x								Warning			
5	2005-1661	2007	STA	x	x								Warning	Partly	Equal	Both
	2001-721	2004		x								x	Warning+fine			
6	2006-1542	2007	SOS	x	x								Withdrawal appr	Partly	Fewer	Both
	2004-847	2004		x	x				x				Warning+fine			
7	2006-1556	2007	SOS	x	x			x					Withdrawal appr	Partly	Fewer	Both
	2004-583	2004		x	x	x			x				Warning+fine			
8	2006-1597	2007	Notification	x				x				x	Warning	Partly	More	Both
	2000-272	2002		x									Warning			
9	2005-601	2007	STA	x	x							x	Withdrawal auth	Partly	More	Both
	2003-754	2004		x									Warning			
	1996-637	1996		x									Reminder			
10	2005-605	2007	STA	x	x			x				x	Withdrawal auth	Partly	More	Both
	2002-1596	2003		x									Warning			
	1996-1235	1997		SSBPA						x						
11	2007-389	2008	SSBPA	x	x	x		x					Withdrawal auth	Partly	More	Both
	2001-389	2001			x				x				Warning			
12	2008-802	2008	SOS	x	x	x							Warning	Partly	More	Process
	2004-645	2005		x	x								Warning			
13	2008-65	2009	STA									x	Warning	No	Equal	Both
	2007-563	2007		x									Warning			
14	2009-158	2009	SOS	x									Withdrawal appr	Yes	Equal	Process
	2006-141	2007		Notification	x								Warning			
	2003-318	2004		STA	x								Reminder			
	2001-1099	2002		STA	x								Warning			
15	2009-157	2009	SOS	x	x								Warning	Partly	Fewer	Both
	1998-59	2001		SOS	x	x	x			x		x	Warning+fine			
	REV 161/87	1987			x	x				x			Warning			

16	2008-264	2009	STA	x	x		Warning	Partly	More	Process	
	2006-656	2008		x			Warning				
17	2009-66	2010	SSBPA			x	Warning	Partly	Fewer	Both	
	2004-1505	2005		x	x	x	Warning				
18	2010-140	2010	SSBPA				x	Yes	Equal	Professional	
	2009-30	2009	SSBPA				x				Warning
	2007-1507	2008	Notification				x				Warning
19	2010-616	2010	STA	x			Warning	Partly	Fewer	Process	
	2008-653	2008		x	x		Warning				
20	2010-61	2010	STA	x	x	x	Withdrawal auth	Partly	More	Process	
	2005-1705	2006		x	x		Warning				
										48	

Appendix 3: Typical Disciplinary Case of the SSBPA

Dnr 2006-1438

2008-06-17

D 27/08

D 27/08

Revisorsnämnden (RN) har mottagit en anmälan angående godkände revisorn A-sons revisionsuppdrag i ett aktieföretag och har därför öppnat detta disciplinärende. A-sons revisionsuppdrag i företaget har omfattat räkenskapsåren 2003 och 2004.

Av anmälan och övriga handlingar i ärendet framgår bland annat följande. Företaget bedrev konsultverksamhet inom reklambranschen. Ägaren till företagets aktier har också varit dess företrädare och enda anställd. Företagets registrerade aktiekapital uppgick till 100 000 kr. Enligt årsredovisningarna för räkenskapsåren 2001, 2002 och 2003 har företaget haft ett eget kapital som understigit det registrerade aktiekapitalet med mer än hälften. Per balansdagen den 31 december 2004 uppgick dock det egna kapitalet till 56 000 kr. Varken årsredovisningen för räkenskapsåret 2003 eller den för 2004 innehåller några upplysningar angående företagets ställning förutom det som framgår av siffrorna i balans- och resultaträkningarna. I revisionsberättelsen för räkenskapsåret 2003 har A-son gjort följande anmärkning: ”Styrelsen har erinrats om att företaget är likvidationspliktigt.” Anmälaren har också ifrågasatt A-sons oberoende, bland annat med hänvisning till att företagets löpande redovisning har skötts av en redovisningsbyrå som har samma adress som A-sons revisionsbyrå och firmagemenskap med detta. För räkenskapsåret 2004 har A-son avgett en revisionsberättelse som inte avviker från standardutformningen.

A-son har anfört bland annat följande.

Företagsledaren har varit medveten om sin skyldighet att upprätta kontrollbalansräkning, men initialt har detta inte skett eftersom det inte skulle ha medfört en annan bild av företagets ställning än den som erhöles genom fortlöpande rapporter från företagets redovisningsbyrå. Rapporterna visade en förbättring av företagets ställning, vilket återspeglades i det egna kapitalet. Det sistnämnda uppgick den 31 december 2002 till minus 295 000 kr och den 31 december 2003 till minus 14 000 kr. Den 28 juni 2004, då hon avgav revisionsberättelsen för räkenskapsåret 2003, kvarstod likvidationsplikten. Det fanns dock inget som indikerade att företagets verksamhet inte skulle medföra att tidigare underskott skulle återhämtas inom en överskådlig framtid. Företaget hade fortlöpande konsultuppdrag och ”kostnadsbilden” i företaget var begränsad, varför ett överskott budgeterades. Företagets ställning var dock beroende av företagsledarens benägenhet att aktivt arbeta för att få in nya uppdrag. Vid avgivandet av revisionsberättelsen för räkenskapsåret

2004 hade kontrollbalansräkning per den 30 april 2005 framlagts. Kontrollbalansräkningen visade att aktiekapitalet var återställt. Det framkom inga nya skäl till anmärkning i revisionsberättelsen inom den mellanliggande tiden.

Angående samarbetet med redovisningsbyrå har A-son anfört följande. Ungefär en femtedel av hennes revisionsklienter har anlitat den aktuella redovisningsbyrå, som hyr lokaler av revisionsbyrå. Lokalerna är avgränsade med lås från revisionsbyrå och har egen ingång från trapphuset. Hon har inga personliga intressen i redovisningsbyrå. Hennes man, som varken är revisor eller redovisningskonsult, ägde vid tiden för de i ärendet aktuella revisionerna aktierna i redovisningsbyrå och skötte dess administration, men tog i övrigt ingen del i verksamheten. Han har sedan RN:s disciplinärende öppnades sålt aktierna och har numera inget med redovisningsbyrå att göra. En anställd konsult på redovisningsbyrå har skött bokföringen i det i ärendet aktuella bolaget, varvid bolaget har skickat okonterat underlag till konsulten. Det var fråga om ett fåtal fakturor och transaktionernas klassificering var självklar. Eftersom A-son inte har haft några intressen i redovisningsbyrå och hennes revisionsverksamhet bedrivs helt självständigt från redovisningsbyrå, har hon inte bedömt att förhållandena har skilt sig från de fall då kunderna anlitar andra redovisningsbyråer.

RN, som har tagit del av A-sons revisionsdokumentation, gör följande bedömning.

En revisor ska, inom ramen för förvaltningsrevisionen, särskilt i revisionsberättelsen anmärka bland annat på om han eller hon vid granskningen har funnit att en styrelseledamot eller den verkställande direktören har handlat i strid med aktiebolagslagen (2005:551).ⁱ Dessa regler innebär att revisorn är skyldig att lämna anmärkning i revisionsberättelsen bland annat om han eller hon finner att en styrelseledamot inte har följt sin skyldighet att enligt 25 kap. 13 § 1 nämnda lag upprätta och låta bolagets revisor granska en kontrollbalansräkningⁱⁱ samt i förekommande fall iaktta de skyldigheter som följer om denna kontrollbalansräkning utvisar att bolagets egna kapital understiger hälften av aktiekapitalet. Denna skyldighet att anmärka åvilar revisorn varje år som styrelsen har brutit mot nämnda bestämmelse i aktiebolagslagen. Det har framkommit att styrelsen haft skyldighet att upprätta kontrollbalansräkning enligt reglerna i aktiebolagslagen både under räkenskapsåret 2003 och 2004. A-son har således genom att inte i respektive revisionsberättelse anmärka på styrelsens underlåtenhet att följa aktiebolagslagens regler åsidosatt sina skyldigheter som revisor.^A

Enligt 21 § första stycket revisorslagen (2001:883) ska en revisor för varje uppdrag i sin revisionsverksamhet pröva om det finns omständigheter som kan rubba förtroendet för hans eller hennes opartiskhet eller självständighet. I paragrafens första stycke 1 anges ett antal typsituationer i vilka det råder en presumtion för att revisorn ska avböja eller avsäga sig uppdraget. Enligt första stycket 2, den s.k. generalklausulen, ska en revisor vidare avböja eller avsäga sig ett uppdrag om det föreligger något annat förhållande av sådan art att det kan rubba förtroendet för hans eller hennes opartiskhet eller självständighet. Enligt 21 § andra stycket 1 behöver revisorn dock inte avböja eller avsäga sig uppdraget om det i det enskilda fallet föreligger sådana särskilda omständigheter eller har vidtagits sådana åtgärder som medför att det inte finns anledning att ifrågasätta hans eller hennes opartiskhet eller självständighet.

Det har framkommit att A-sons make har ägt aktierna i och varit ensam styrelseledamot i den redovisningsbyrå som skött bolagets grundbokföring. Detta utgör enligt RN:s meningⁱⁱⁱ en sådan omständighet som enligt generalklausulen i 21 § första stycket 2 kan rubba förtroendet för A-sons opartiskhet och självständighet. Av 9 kap. 17 § aktiebolagslagen första stycket 1 och 5^{iv} följer att den som är gift eller sambo med den som yrkesmässigt biträder ett bolag vid dess grundbokföring inte får vara revisor i bolaget. I det aktuella ärendet föreligger en situation som ligger nära en sådan jävssituation enligt aktiebolagslagen. RN ser särskilt allvarligt på sådana förtroenderubbade omständigheter som ligger nära de jävsbestämmelser som föreskriver att en revisor är obehörig att utföra ett revisionsuppdrag.^v Det har således rått en presumtion för att A-son har varit skyldig att avböja eller avsäga sig det aktuella uppdraget. Såvitt framgått av

utredningen har det inte förelegat några sådana särskilda omständigheter eller vidtagits några sådana åtgärder som medför att det inte har funnits anledning att ifrågasätta hennes opartiskhet eller självständighet. Genom att ändå inneha det aktuella revisionsuppdraget har A-son brutit mot revisorslagens regler om revisorers opartiskhet och självständighet, varigenom hon har åsidosatt sina skyldigheter som revisor.^B

Sammanfattningsvis är det i ärendet utrett att A-son har åsidosatt sina skyldigheter som revisor genom att inte i revisionsberättelserna för räkenskapsåren 2003 och 2004 anmärka på styrelsens underlåtenhet att följa aktiebolagslagens regler om upprättande av kontrollbalansräkning. Vidare har hon åsidosatt sina skyldigheter som revisor genom att bryta mot revisorslagens regler om opartiskhet och självständighet. A-son ska därför meddelas en disciplinär åtgärd. Med hänsyn till att det som ligger henne till last är allvarligt ska A-son meddelas varning.

Med stöd av 32 § andra stycket revisorslagen (2001:883) meddelar RN A-son varning.

Ärendet har avgjorts av RN genom dess tillsynsnämnd. I beslutet har deltagit f.d. domaren i Europadomstolen, Elisabeth Palm, ordförande, auktoriserade revisorn Ulla Nordin Buisman, biträdande avdelningschefen Eva Ekström, godkände revisorn Klas-Erik Hjorth, utredningssekreteraren Jan-Erik Moreau, professorn Claes Norberg samt skattejuristen Kerstin Nyquist. Vid ärendets slutliga handläggning har i övrigt närvarit direktören Peter Strömberg, tf. chefsjuristen Adam Diamant, revisionsdirektören Göran Raspe samt avdelningsdirektören Sara Orback som föredragit ärendet.

Comments:

^A It was noted that the Board had an obligation to establish a balance sheet for liquidation. As the auditor did not remark in the audit reports on the Board's failure to comply with the SCA, she neglected her duties.

^B It was further revealed that the auditor's husband has owned the shares and was the only member of the Board of the accounting firm that handled the basic accounting of the audited company. As the auditor continued to maintain the current audit assignment, she violated the rules of the SAA regarding auditors' independence and autonomy.

In summary, the auditor received a warning by the SSBPA as a disciplinary sanction, since she did not fulfilled the requirements stated for auditors. When reading the disciplinary cases and categorising the wrongdoings committed, the authors remarked on the failures that caused the sanction imposed. The errors that were summarised at the end of each case served as basis for the categorisation. This case was thus categorised with the following wrongdoings: A, *Error of judgment or execution when performing the audit* and E, *Lack of independence*.

ⁱ Se 9 kap. 3 och 33 §§ aktiebolagslagen. Motsvarande bestämmelser fanns före den 1 januari 2006 i 10 kap. 3 och 30 §§ aktiebolagslagen (1975:1385).

ⁱⁱ Motsvarande bestämmelse fanns i 13 kap. 12 § i 1975 års aktiebolagslag

ⁱⁱⁱ RN:s uppfattning framgår av flera tidigare beslut; se D 28/99, D 3/01, D 53/00-01 och D 11/05 i RN:s praxissamling.

^{iv} Motsvarande bestämmelser fanns i 10 kap. 16 § i 1975 års aktiebolagslag.

^v Se exempelvis RN:s beslut D 21/05 och D 34/05 i RN:s praxissamling.