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Critical areas within auditing

*An analysis of the Swedish Supervisory Board of Public
Accountants disciplinary withdrawals*

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Abstract

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Title: Critical areas within auditing – An analysis of the Swedish Supervisory Board of Public Accountants disciplinary withdrawals

Background and problem: It is pivotal to provide competent auditors for the trade and industry as well as to supervise and assure the quality of the audit profession. The Swedish Supervisory Board of Public Accountants (SSBPA), a governmental authority, was in 1995 assigned the mission to both provide approved and authorized auditors in Sweden and to supervise these. The board has the authority to issue reminders and warnings or withdraw the licenses of auditors if necessary. However, studies reveal that only withdrawal has a major effect on the auditor. To thoroughly explore the frequency of these withdrawals and the reasons for them would therefore be of considerable interest.

Aim: The aim of this master thesis is to examine the SSBPA's investigation of auditors, to be able to identify what areas within auditing that are critical for the auditor when performing an audit. Furthermore, the aim is also to analyze the disciplinary cases resulting in the SSBPA withdrawing the license of the auditor, in order to describe the types of failures that are reported most frequently as well as what types of failures that solely lead to withdrawal.

Method: This study was conducted by reviewing 77 disciplinary cases issued by the SSBPA resulting in withdrawal of authorization or approval during 1995-2010. The audit failures found in these cases were sorted into categories representing different areas within the audit process and the professional conduct of the auditor. Thereafter, the empirical result was analyzed based on previous studies and the frame of reference.

Results and conclusions: The most frequent type of failure in the 77 disciplinary cases was by far failures regarding *Error of judgment or execution when performing the audit*. However, the fact that a failure is frequently reported does not mean that it is the most likely cause of withdrawal. This study revealed two additional areas as critical, in terms of solely leading to withdrawal of license. These areas consisted of *Failure to cooperate with the SSBPA's investigation etc.* and *Unprofessional conduct*.

Future studies: An interesting point of view would be to thoroughly compare disciplinary cases resulting in withdrawals with cases resulting in warnings, in order to determine the differences in content between these two sanctions. Furthermore, a comparison between sanctions issued by the SSBPA and sanctions issued by similar supervisory authorities abroad may also be of value as it would provide further information regarding supervision and auditing on an international level.

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Abbreviations

GAAS	Generally Accepted Auditing Standards
PCEA	Professional Code of Ethics for Auditors
SAA	Swedish Auditing Act (1999:1079)
SAAA	Swedish Annual Accounts Act (1995:1554)
SAuA	Swedish Auditor Act (2001:883)
SBA	Swedish Bookkeeping Act (1999:1078)
SCA	Swedish Company Act (2005:551)
SEC	Securities and Exchange Commission
SSBPA	Swedish Supervisory Board of Public Accountants
STA	Swedish Tax Agency

Definitions

Area	A distinct part or section (The American Heritage Dictionary of the English Language, 4. ed. 2010). In this master thesis, a specific area is represented by a category.
Audit	An official examination of business and financial records to see that they are true and correct (Hornby 2000).
Critical	Inclined to judge severely and find fault (The American Heritage Dictionary of the English Language, 4. ed. 2010).
Failure	Lack of success in doing or achieving something (Hornby 2000).

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Chapter 1: Introduction

The first chapter of this report presents background information and a problem discussion related to this study. Thereafter, the specific problem statement and aim of this thesis are stated. Finally, the benefits of this study are presented as well as the disposition for the remaining chapters of the report.

1.1 Background

As large corporations started to emerge around the world during the 19th century, a demand for auditors arose among shareholders in particular. Initially, the primary aim of the auditors was to examine whether assets had been misappropriated or not. The secondary aim was to act as a detached controlling authority towards the management of the corporations and assure shareholders the reliability of the information given to them. (Wallerstedt 2009) Since the 19th century, the stakeholders for whom the audit is essential have extended to include creditors, employees, suppliers, and tax agencies (Carrington 2010).

FAR, the professional institute for authorized and approved public accountants in Sweden, defines the role of the auditor as reviewing annual reports and bookkeeping, and monitoring the administration of the board as well as the president of the company. FAR further explains that the auditor is to advise the general meeting on whether or not to confirm the income statement, balance sheet and proposed allocation of profit, and whether to recommend discharge for the board and the president. (FAR 2011)

It is pivotal to provide competent auditors for the trade and industry as well as to supervise and assure the quality of the audit profession. "An auditor's failure to detect significant misrepresentations in a company's financial statements can lead not only to losses by individual investors, but also to an overall decline of trust in capital institutions" (Bazerman et al. 1997, p. 90). The Swedish Supervisory Board of Public Accountants (SSBPA), a governmental authority, was in 1995 assigned the mission to both provide approved and authorized auditors in Sweden and to supervise these. As of January 1 2011, 4,050 approved and authorized auditors were active in Sweden (SSBPA 2011a). The surveillance of public accountants is performed in a number of ways. The SSBPA has its own department of quality control inspections where supervision of public accountants takes place both in office and at audit firms. If doubts over an auditor arise, the case will be sent on to the department of supervision within the SSBPA, where a disciplinary case will be opened. The objective of this department is to find and eliminate auditors that make deliberate mistakes in their audit operations (SSBPA 2010). The department of supervision has the authority to issue reminders and warnings. However, the most serious outcome is withdrawal of licenses for both authorized and approved auditors. The auditor then has to resign from his assignments and give up the audit profession. Reminders and warnings have no drastic effect other than the auditor being one step closer to a withdrawal. Even the shame that should come with a reminder or warning may be avoided as all the disciplinary cases are anonymous. (Carrington 2007) Not only staff within the SSBPA can file a complaint towards auditors and audit firms but also the public. Frequent notifiers consist of the Swedish Tax Agency (STA), the Swedish Enforcement Authority and clients of the auditors (SSBPA Annual Report 2009).

1.2 Problem discussion

As a result of an increasing number of accounting scandals over the last decade, the actions of auditors as well as the supervision of auditors have been criticized. In the United States, Enron attracted much attention and led to the downfall of Arthur Andersen, one of the largest audit

firms in the world at that time (Wallerstedt 2009). However, not all accounting scandals result in serious sanctions against the auditors. In Sweden, there has been a great deal of discussion about the responsibility and knowledge of the auditors due to scandals surrounding companies like Skandia and Prosolviva. As for Skandia, the accusations towards the responsible auditors consisted of negligence to report expensive bonus payments made to the management, overlooking an illegal distribution of profit to the parent company, and negligence to remark on costly renovations of apartments owned by the management although paid by the company. Although much criticism was leveled at the responsible auditors, the SSPBA chose to dismiss the disciplinary case (Skandias revisorer frias från ansvar 2004). The Prosolviva case led to a massive dispute concerning the bankruptcy of the company. The management and the responsible auditor were accused of accounting fraud and misleading the public with incorrect information, which later led to the bankruptcy. Both the management and the responsible auditor were acquitted in the District Court (PwC frias i Prosolviva-målet 2010).

For the public, it may seem questionable that auditors so often manage to escape from accounting scandals without any serious actions affecting them. How severe of a failure must the auditor cause to be affected by a serious sanction? Media has strongly questioned the independence of the auditors working for the SSBPA, as the authority employs the majority of its staff from the “Big Four” i.e. Deloitte, Ernst & Young, KPMG, and PwC (Rapport 2010). Although expertise within auditing is essential for high quality supervision, much criticism has been placed towards the fact that auditors supervise auditors, which may reduce the willingness of convictions. Indeed, as much as 60 percent of the incoming disciplinary cases are dismissed by the SSBPA without any actions being taken (Halling 2008).

The public expectations of an audit rarely corresponds with the audit an auditor is capable of performing (Johansson et al. 2005). The application of Generally Accepted Auditing Standards (GAAS) and efficiency usually creates an expectation gap between the two parties. This expectation gap may explain why the auditor so often can elude a sanction, even though a reprimand seems as the obvious choice in the public eye. As for the sanctions issued by the SSBPA, results have been presented showing that warnings and reminders have little or no effect within the audit profession (Carrington 2007). The purpose of a reminder or warning is to lower the fee paid to a reprimanded auditor. However, this recently proved not to be accurate as the fees to auditors who had been subject to warnings within the last five years, still rose by on average 30 percent (Revisorernas löner höjs trots varning 2010).

The arguments mentioned above suggest that out of the sanctions issued by the SSBPA, only withdrawal of approval or authorization has a major effect on the auditor. To thoroughly explore the frequency of these withdrawals and the reasons for them would therefore be of considerable interest.

1.3 Problem statement

What areas within auditing are critical for the auditor when performing an audit?

- What failures within auditing are most frequently reported by the Swedish Supervisory Board of Public Accountants in the disciplinary cases resulting in withdrawal of approval or authorization during 1995-2010?
- What types of failures within auditing lead to withdrawal of approval or authorization by the Swedish Supervisory Board of Public Accountants?

1.4 Aim

The aim of this master thesis is to examine the SSBPA's investigation of auditors, to be able to identify what areas within auditing that are critical for the auditor when performing an audit. Furthermore, the aim is also to analyze the disciplinary cases resulting in the SSBPA withdrawing the license of the auditor, in order to describe the types of failures that are reported most frequently as well as what types of failures that solely lead to withdrawal.

1.5 Benefits of the study

Knowledge of critical areas within accounting and auditing is essential for the business environment. By investigating the problem statements, the authors contribute to the current debate about the responsibilities of auditors as well as the supervision of auditors. The results of this study may be useful for auditors and auditors to be, as their awareness of "right" and "wrong" in auditing may increase. Furthermore, the SSBPA as well as audit firms may benefit from this information when arranging examinations and deciding what types of in-service training to focus on. Finally, the results of this study can be used as guidance for accountants in general, as to point out critical areas within accounting.

1.6 Disposition

Chapter 1: Introduction

The first chapter of this report presented background information and a problem discussion related to this study. Thereafter, the specific problem statement and the aim of this thesis were stated. Finally, the benefits of this study were presented as well as the disposition of the chapters of the report.

Chapter 2: Previous Research

As this study has much in common with previous research by Thomas Carrington in terms of research design, a presentation regarding his dissertation and its results is made in this chapter. Two American studies with similar aims as the one by Carrington will also be presented.

Chapter 3: Method

In this chapter, the authors discuss the type of study to be performed and present the methodology that was applied on this report. Furthermore, a complete review of the research approach will be made. Finally, validity and reliability for the study is discussed as well as criticism of the sources.

Chapter 4: Frame of reference

Within this chapter, the authors present information assessed as necessary to be able to understand the conduct of this study as well as the results. An introduction regarding auditing in general is presented as well as opinions of audit quality. Furthermore, the concepts of auditing are explained and information regarding the SSBPA is presented. Finally, the categories used in this study will be introduced and explained.

Chapter 5: Empirics & Analysis

In this part the empirical results of the study are presented together with the analysis and interpretations made by the authors.

Chapter 6: Results

In this last chapter, the conclusions of the empirics and analysis will be presented to answer the research questions of the study. A discussion of these conclusions will follow as well as suggestions for future research.

Chapter 2: Previous Research

As this study has much in common with previous research by Thomas Carrington in terms of research design, a presentation regarding his dissertation and its results is made in this chapter. Two American studies with similar aims as the one by Carrington will also be presented.

2.1 A study of the demands on a sufficient audit

The dissertation "*Framing Audit Failure: Four studies on audit quality discomforts*" by Swedish Uppsala University lecturer Thomas Carrington (2007), is based upon four articles with a shared aim of investigating audit quality discomfort. In the first article, discussing audit as a comfort producing activity, Carrington (2007) interviews senior auditors in order to find critical obstacles and situations in the audit process based on their experiences and knowledge. The second article is essential for this study as it analyzes the demands on a sufficient audit by studying disciplinary cases from 1995 to 2003. By categorizing failures occurring in the audit process and the professional role of the auditor, Carrington (2007) presents what the SSBPA assesses as a sufficient audit. The third article focuses on what stakeholders consider being comfort audit quality. Finally, the fourth article describes other contributing factors of why an audit may not be comfort enough.

The second article is in many aspects the basis of this study. "*The process and the professional: An analysis of the demands on a sufficient audit*" emphasizes how the SSBPA frames a sufficient audit. The study was conducted by reviewing wrongdoings reported in 354 disciplinary cases from 1995 to 2003. Carrington (2007) establishes that the number of wrongdoings in each case varies between 1 and 14, which suggests that in order to be given a sanction the auditor in general has committed several wrongdoings.

Carrington (2007) divides the failures into *Process failures* and *Professional failures*. The former category includes failures associated with the audit work whereas the latter relates to the professional conduct of the auditor. Out of the 354 cases, 140 concerned process failures, 110 concerned professional failures and 106 concerned both process and professional failures. Carrington (2007) therefore concludes that process failures are more frequent than professional failures.

Table 2.1 **Types of wrongdoings and punishment mentioned in the cases**

	Economic-consequences	Shame
Process	3	137
Process and Professional	28	76
Professional	14	96
Total	45	309

Source: *The process and the professional: An analysis of the demands on a sufficient audit*, Carrington (2007)

Altogether, 45 disciplinary cases resulted in the economic consequence of withdrawal of approval or authorization. Out of these 45 cases, 3 were related to solely process failures, 14 to solely professional failures and 28 included both process and professional failures (see Table 2.1). Thus, 96 percent included a professional wrongdoing alone or in combination with a process failure. The remaining 309 cases resulted in the shame sanctions of warnings and reminders. Therefore, these sanctions were suggested as being the sanctions of choice when dealing with process wrongdoings.

Table 2. 2

Frequency of failures

	Withdrawal	Warning	Reminder	All cases
Process failures	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 criminal activities	0 (0%)	1 (100%)	0 (0%)	1 (0.3%)
Professional failures	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 the SSBPA's investigation	7 (70%)	3 (30%)	0 (0%)	10 (3%)
Not registered with, or paid the fee to, the SSBPA, etc.	1 (17%)	3 (50%)	2 (33%)	6 (2%)
All cases	45 (13%)	230 (65%)	79 (22%)	354 (100%)

Source: *The process and the professional: An analysis of the demands on a sufficient audit*, Carrington (2007)

Carrington (2007) chooses to divide process and professional failures into nine categories. As one case may contain diversified types of failures, one category does not automatically exclude another. This explains why the numbers in Table 2.2 exceed 100 percent of the total cases. The dissertation shows that failures regarding *Error of judgment or execution when performing the audit*, *Lack of independence* and *Insufficient documentation* are the most prevalent reasons for withdrawal of approval or authorization. Out of the 45 cases resulting in withdrawal, 31 cases included failures regarding *Error of judgment or execution when performing the audit*, 27 cases included *Insufficient documentation* and 24 cases contained situations of *Lack of independence*.

Finally, in an article referring to his dissertation, Carrington (2011) concludes that auditors not acting responsibly are judged more severe than auditors making mistakes in the technical performance of the audit itself and therefore violates the rules, regulation and auditing standards.

2.2 A study of SEC disciplinary proceedings

In the study "*An analysis of SEC disciplinary proceedings*", Brown & Calderon (1993) discuss disciplinary actions against auditors issued by the American Securities and Exchange Commission (SEC). The study was conducted by examining 156 disciplinary releases issued by the SEC from 1935 to 1989. However, out of the 156 disciplinary releases during the mentioned period of time, 90 percent derived from the period between 1970 and 1980.

The SEC may issue three types of sanctions consisting of permanently barring the defendant from practice before the SEC, temporarily barring the defendant from practice before the SEC, and public censure. However, Brown & Calderon (1993) state that the Commission has made its own interpretations of these sanctions, which has led to varied and personalized sanctions against auditors. Furthermore, the releases issued by the SEC are often a compromise between the SEC and the auditor or audit firm, as the party under investigation has the right to legal counsel.

The failures found in the study were divided into two separate categories of *Audit-related errors* and *Accounting-related errors*, which are illustrated in Table 2.3 and 2.4. As several failures may occur in each case, the total number of failures exceeds 156 or 100 percent. The most frequent failure within audit-related errors was *Lack of independence and Lack of skepticism*. Out of 156 disciplinary releases, 40 percent included failures regarding these related categories. This compiled category was followed by *Lack of sufficient evidential matter* and *Improper reliance on management*. In 43 percent of all disciplinary releases issued by the SEC,

**Table 2. 5 Classification of SEC enforcement actions
1972-1989**

Total Audit Enforcement Actions	132
Less: Actions involving independent auditor fraud	26
Enforcement Actions Citing Violations of GAAS	106
<i>Violations of General Standards:</i>	
Technical training and proficiency	16%
Independence	16%
Due care	68%
<i>Violation of Fieldwork Standards:</i>	
Planning and supervision	56%
Predecessor auditor	8%
Assessment of management integrity	4%
Engagement planning	27%
Engagement supervision	28%
Familiarity with client's business	10%
Post audit review procedures	27%
Internal control structure assessment	24%
Sufficient competent evidential matter	83%
Related party transactions	37%
Client representation overreliance	50%
Work paper preparation	25%
Subsequent events	14%
Audit program development	40%
Confirmation planning/control	34%
Sampling methodology	6%
Use of specialists	5%

Source: *SEC communications to the independent auditors: An Analysis of Enforcement Actions*, Campbell & Parker (1992)

information given by the client. One of the most frequently reported failures in the study was the negligence of *Due care*, which include professional skepticism, auditor judgment and critical review. Another common failure derived from *Violation of planning and supervision*, where audit planning, audit supervision, and independent audit review procedures included most failures. Furthermore, in 24 percent of the 106 actions, the SEC reported failures regarding testing the *Internal control structure assessment*. Finally, in 83 percent of the releases issued by the SEC, the auditor failed to gather *Sufficient competent evidential matter*. Out of this main category, the subordinate category *Over-reliance on client representations* was reported in 50 percent of the releases and failures regarding *Related party transactions* occurred in 37 percent.

Chapter 3: Method

In this chapter, the authors discuss the type of study to be performed and present the methodology that was applied on this report. Furthermore, a complete review of the research approach will be made. Finally, validity and reliability for the study is discussed as well as criticism of the sources.

3.1 Research methodology

A descriptive method was applied on this study as the aim of this master thesis was to identify and describe the critical areas within auditing. Blumberg et al. (2008) define a descriptive study as one which involves gathering data and provides the answers to the questions who, what, when, where and sometimes how.

Furthermore, this study was conducted according to the qualitative methodology, as the main part of the empirics could not be translated into numbers and figures but needed to be verbally analyzed, interpreted and presented. Indeed, the difference between a qualitative and a quantitative study is whether the emphasis is put on words or numbers (Bryman & Bell 2003). Hence, a qualitative study is characterized by the absence of numbers and figures and concentrates on verbal formulations (Backman 2008). During a qualitative study, researchers are usually part of the research and focus on a deeper understanding of the phenomenon. Thus, the authors are aware of the fact that this study was influenced by a degree of subjectivity, which readers should keep in mind.

3.2 Selection

For this study, the authors chose to select all disciplinary cases issued by the SSBPA resulting in a final verdict of withdrawal during 1995-2010. Any cases settling in the district courts or the administrative courts were excluded. This distinction was made possible due to a search tool on the SSBPA website. Subsequently, disciplinary cases resulting in withdrawal by the SSBPA but revised to other sanctions in higher courts were also dismissed. This selection was preferable as only final withdrawals of approval or authorization lead to major effects of the auditor.

3.3 Search of literature

The literature used in this study was acquired from the libraries of Gothenburg University and Chalmers University of Technology. Search engines such as Libris, Business Source Premium, and FAR Komplet were used in the search of literature. However, the articles of Bazerman et al. (1997) and Moore et al. (2010) were obtained after contact with the Baker Library of Harvard Business School. Literature regarding the methodology chapter was collected through searching for "Business Research Methods". Literature regarding other chapters of the thesis was gained through combinations of the keywords "audit", "auditor", "audit quality", "supervision", and "the Supervisory Board of Public Accountants", in both Swedish and English. In addition, useful information about the SSBPA was gathered from the SSBPA website.

Reference lists of other student thesis, dissertations, and research articles were useful sources in gaining knowledge of similar literature. Additionally, in order to obtain scientific articles, focus was put on well-known journals of accounting and/or auditing.

3.4 Previous student reports

Previous student theses are considered as important sources of information and had to be taken into account. Through the website Uppsatser.se, a search for previous student theses using the keyword "SSBPA" resulted in 24 studies. Out of these reports, only two with similar aims as this study were found. Folkesson & Fransson (2010) conducted a study where all disciplinary cases initiated by the SSBPA's Systematic Outreached Supervision during 1999-2009 were analyzed through a quantitative approach. Furthermore, Larsson & Svensson (2010) reviewed all disciplinary cases issued by the SSBPA during 2005-2009 to detect possible "problem areas". Hence, this student report exclusively investigates *all* disciplinary cases resulting in the SSBPA withdrawing the license of the auditor. Furthermore, the results of this study provided more extensive and thorough conclusions in contrast to previous student reports on withdrawals and thus contributed to the ongoing debate on auditing.

3.5 Research approach

The conduct of this study was carried out in three stages. Firstly, the disciplinary cases resulting in the SSBPA withdrawing the license of the auditor were sorted out from the disciplinary cases resulting in other sanctions. Secondly, a categorizing system was created to be able to thoroughly answer the research questions. Thirdly, the disciplinary cases were categorized, compiled, analyzed, and presented.

3.5.1 Collection of data

As a result of being a governmental authority, all information concerning the SSBPA and its disciplinary cases is public. The SSBPA website provides a collection of nearly all disciplinary cases settled by the organization during 1995-2010 (SSBPA 2011b). Hence, this primary source of information became the most essential for this study. In addition, several disciplinary cases were gathered through published books (Revisorsnämndens praxis 1995-2005), as they were not published on the website. All disciplinary cases in this study are referred to as D x/xx, informing of the verdict number as well as the year of the verdict.

As this study was limited to disciplinary cases resulting in withdrawal of licenses, these had to be sorted out from the rest of the disciplinary cases resulting in other sanctions. Initially, a search tool on the SSPBA website was used but failed to provide all of the desired cases. Therefore, a complete review of all disciplinary cases issued by the SSBPA during the selected years was required to guarantee a correct listing of the necessary cases. A brief compilation of the failures in each disciplinary case was also documented at this stage to facilitate categorization later on.

3.5.2 Categorization

To be able to answer the research questions of the study, a categorizing system regarding the failures caused by the auditors in the disciplinary cases was necessary. Using a model previously prepared by Carrington (2007) provided legitimacy and credibility to the categorizing system, as it had been successful in his dissertation. Overall categories included process and professional failures, which were also divided into four main categories respectively. The original category *Not registered with, or paid the fee to, the SSBPA etc.* was excluded from this study, as no failures of this type were reported.

The authors assessed the original main category *Error of judgment or execution when performing the audit* to be rather general as it included a wide range of types of failures occurring during an audit. Hence, this wide category would have been insufficient to answer the specific research questions of this report. The category also received a high number of outcomes in the

Table 3. 1 Categorization I
(partly based on the categorization by Carrington, 2007)

Process failures

Error of judgment or execution when performing the audit

- Intangible assets*
- Tangible assets*
- Financial assets*
- Inventory*
- Short-term receivables*
- Short-term investments*
- Cash & Bank deposits*
- Equity*
- Untaxed reserves*
- Provisions*
- Long-term liabilities*
- Short-term liabilities*
- Collaterals pledged and contingent liabilities
- Annual report*
- Audit report*
- Bookkeeping*
- Taxes & Charges*
- Other*

Insufficient documentation

Insufficient or inadequate planning and risk assessment

Failure to report suspicion of criminal activities

Professional failures

Lack of independence

- Conflict of interest*
- Challenge*

Unprofessional conduct

Shortcomings in the audit firm organization

Failure to cooperate with the SSBPA's investigation etc.

study by Carrington (2007), which indicated a division into several subordinate categories to be required. Thus, an extension concerning the main category *Error of judgment or execution when performing the audit* was made. As a similar expansion of the category had not been prepared by Carrington (2007), the authors needed to create an additional categorizing model. Since nearly all failures concerning judgment or execution in the audit process may be addressed to the balance sheet, the recommended disposition for balance sheets introduced by the Swedish Financial Reporting Board, found in FAR SRS 2010, was used as guidance. This model resulted in 13 categories (see Table 3.1). However, it failed to provide specific categories regarding the *Annual report*, the *Audit report*, *Bookkeeping*, and *Taxes & Charges*. Therefore, these subordinate categories were added to the list. The category *Audit report* was created as a category separate from the *Annual report*, as it is associated to the auditor exclusively. A category of *Other* was also added to collect failures not qualified in other subordinate categories. The authors assessed the extension of *Error of judgment or execution when performing the audit* as justified, as nearly all subordinate categories contained more errors than several main categories.

The authors also chose to extend the category *Lack of independence* into *Challenge* and *Conflict of interest*, as the SSBPA refers to different laws concerning these situations. The other main categories were not extended into subordinate categories due to two reasons. Firstly, several main categories did not receive a high number of outcomes and thus required no further extensions. Secondly, several main categories in the study included failures only generally described by the SSBPA, making it difficult for the authors to make further categorizing. However, all main categories were individually and thoroughly presented and analyzed in Chapter five, providing a deep understanding about the failures in each category.

3.5.3 Conduct of the study

In a typical disciplinary case, all failures mentioned by the SSBPA in the assessments throughout the case are also included in the final summary assessment (see Appendix 2). However, in some cases there is a difference in content between the different types of assessments. As for identifying failures in each disciplinary case, the authors therefore had to decide for a method to assure consistency and accuracy during the conduct of the empirics. The authors considered the summary assessments in the disciplinary cases to be the ultimate basis for the sanctions ruled by

Table 3. 2 Categorization II
 (10 most frequently reported subordinate categories
 regarding Error of judgment or execution when
 performing the audit)

Process failures

Error of judgment or execution when performing the audit

- Intangible assets*
- Tangible assets*
- Inventory*
- Short-term receivables*
- Cash & Bank deposits*
- Equity*
- Annual report*
- Audit report*
- Bookkeeping*
- Taxes & Charges*
- Financial assets*
- Short-term investments*
- Untaxed reserves*
- Provisions*
- Long-term liabilities*
- Short-term liabilities*
- Collaterals pledged and contingent liabilities*
- Other*

- Insufficient documentation
- Insufficient or inadequate planning and risk assessment
- Failure to report suspicion of criminal activities

Professional failures

- Lack of independence
 - Conflict of interest*
 - Challenge*
- Unprofessional conduct
- Shortcomings in the audit firm organization
- Failure to cooperate with the SSBPA's investigation etc.

the SSBPA. The decision was therefore to include all failures stated in the summary assessments of the disciplinary cases. Thus, only failures mentioned in the summary assessments were analyzed on the basis of the information previously stated in the general assessments of the disciplinary cases. By choosing this method, some failures mentioned in the disciplinary cases were left out of the study. However, the authors assessed the method used to provide a necessary consistency to the study and put focus on the failures that the SSBPA based its rulings on. A document with all main categories was created in order to facilitate the categorizing process (see Appendix 1). All disciplinary cases resulting in withdrawals were studied carefully both individually and together by the authors before categorizing according to the premade document. The fact that all categories were predetermined prevented impetuous categorization.

When all disciplinary cases had been studied and the categorization was complete, a compilation of all cases and the results was made. As for the subordinate categories regarding *Error of judgment or execution when performing the audit*, the 10 most frequently reported subordinate categories are presented in Chapter five (see Table 3.2). This limitation resulted in a moderate number of the most essential categories in order to answer the research questions.

3.5.4 Presentation of data

In Chapter five the authors chose to present each category, describe the most common failures caused by auditors and show a number of examples from real disciplinary cases. This structure, used by Campbell & Parker (1992), provided a clear overview of both the overall results as well as in-depth information for specific cases. The authors also analyzed the empirics based on previous research within supervision of auditing as well as the frame of reference.

3.6 Validity and reliability

In order to achieve scientific value when conducting a research, chosen methods need to be valid and reliable. Validity indicates the extent to which the measurement measures what it intends to measure. Reliability relates to the measuring instruments and unit of measurement accuracy and usability. (Ejvegård 2009)

As for validity, the authors limited their data collection to disciplinary cases issued by the SSBPA resulting in withdrawal of licenses. This selection of data ensured to discover the types of failures assessed critical within auditing in Sweden.

All disciplinary cases are structured in the same way and were therefore easy to review. This transparency meant that the risk of misinterpretations when conducting the study was drastically reduced. To ensure reliability in the data collection, the authors individually and together sorted out the disciplinary cases resulting in withdrawal. The authors are aware of a deviation regarding the amount of cases published on the SSBPA website and the total number of withdrawals handled according to the annual reports of the SSBPA. As the deviation is significant for some of the years in the study, the authors contacted the authority for an explanation. According to a legal expert at the SSBPA, all disciplinary withdrawals settled by the supervisory board are published on the website. However, there are four specific situations where the SSBPA office itself may settle a case instead of the board, as withdrawal is the only possible outcome. These situations include not paying prescribed fees, not answering questions posed by the SSBPA, personal bankruptcy of the auditor and voluntary dismissal of authorization or approval. Out of these situations only a small number are published on the website, as the SSBPA finds it unnecessary to publish cases that are irrelevant for practice setting. Apart from the results concerning the category *Failure to cooperate with the SSBPA's investigation etc.*, the deviation had no significant impact on this study as focus was put on professional and process failures caused by the auditor rather than administrative matters. Indeed, the known bias concerning other types of process and professional failures are insignificant, according to the legal expert at the SSBPA.

Using several observers is a way of controlling the reliability (Patel & Davidson 2003). Hence, to increase the reliability for the results of the empiric study, the authors carefully examined each case both individually and together to assure correct categorizing. Additionally, the authors discussed the definitions of all categories used in this study. The authors are aware of the fact that categorizing may have been performed differently than in the original study by Carrington (2007). Though, the reliability was not affected as this study was completely separated from the original study and was not an attempt to continue the research by Carrington (2007). The authors focused on categorizing consistently throughout the study and the results should therefore present reliable conclusions to the research questions.

3.7 Source Criticism

Conducting a scientific study requires credible sources of information. Depending on the types of sources used, one may expect different levels of credibility. An established opinion is that of primary sources being more trustworthy than secondary sources. Thurén (2005) declares the principles of source criticism to be authenticity, concurrency, independence, and objectivity. The main sources used in this study were the disciplinary cases published by the SSBPA, classified as primary sources. Published by a governmental authority, the authors assumed the information provided to be authentic, independent, and objective. The concurrency of the disciplinary cases was ideal as the published versions are released directly after the processes.

Secondary sources consisting of articles and dissertations were gathered from established databases and peer-reviewed scientific journals. Within the area of audit in general and audit regulation in particular, recency of the information is essential as the subject changes and evolves over time. Therefore, recently published information was chosen whenever possible.

Chapter 4: Frame of reference

Within this chapter, the authors present information assessed as necessary to be able to understand the conduct of this study as well as the results. An introduction regarding auditing in general is presented as well as opinions of audit quality. Furthermore, the concepts of auditing are explained and information regarding the SSBPA is presented. Finally, the categories used in this study will be introduced and explained.

4.1 Auditing

Johansson et al. (2006) allege that the fundamental mission of the auditor is to create confidence and trust for the financial information provided by companies. This value of trust is a vital condition for a healthy business climate in order to allow transactions without complex control functions. Additionally, it provides companies the access of necessary venture capital.

It has been argued that auditing is the paradigmatic example for agency theory, where "auditors are used by investors (the principals) to monitor the activities of the management (the agents)" (Pentland 1993, p. 606). Indeed it is the board and the president of the company that are responsible for the information in the income statement as well as the balance sheet, provided for the investors. It is the auditor, however, who is responsible to assure this information. Although obliged to examine the financial information, the idea that the audit profession includes detecting fraud is not yet accepted (Gough-Anderson 2002).

According to FAR (2001), the audit process can be divided into three stages. The first stage concerns planning of the audit, which should be based upon knowledge of the business. The auditor must decide what process or system within the business to audit as well as how, when and by whom. As all companies are unique, the auditor must adapt the audit after the specific needs of each company. The second stage of the audit process consists of the actual review, which the auditor later bases his positions regarding the audit report upon. The auditor organizes the audit depending on the risk for essential errors within the business. Testing internal controls within the company as well as substance reviewing are essential parts of the review process. The results should be documented to provide evidence to test that the assertions made by management are valid. The third and final stage is the reporting stage, which is the aim of the audit process. The auditor is obliged to submit a public audit report, stating whether the annual report is performed accordingly to the Swedish Annual Accounts Act (SAAA). He must also advise the general meeting on whether or not to confirm the income statement, balance sheet and proposed allocation of profit, and whether to recommend discharge for the board as well as the president of the company.

According to the Swedish Companies Act (SCA), a corporation must elect at least one auditor to examine its bookkeeping and management. However, as of November 2010, smaller Swedish companies, i.e. 70 percent of all Swedish corporations, are excluded from this requirement (Carrington 2010).

4.1.1 Regulation

Within the Swedish regulation, there are two major laws that the auditor needs to obey in his profession. These are the Swedish Auditing Act (SAA) and the Swedish Auditors Act (SAuA). The SAA consists of regulations regarding the actual tasks that the auditor is obliged to do. The sections state that the auditor needs to examine the annual report of the company as well as the bookkeeping and actions of the management. Furthermore, the SAA contains rules concerning

the competence of the auditor as well as challenge. While the SAA focuses on the audit process, the SAuA regulates the actual audit profession. The sections inform on who may become an approved or authorized auditor as well as requirements that are necessary for managing an audit firm. Furthermore, the SAuA contains rules concerning the obligations of the auditor in terms of impartiality, independence and professional secrecy as well as obeying GAAS.

In addition to the laws mentioned above, the auditor must relate to the Swedish Bookkeeping Act (SBA), the SAAA, and the SCA. The SBA contains rules and requirements concerning general bookkeeping and how it should be closed as well as rules on filing of documents. The SAAA includes rules on preparing and disclosing annual reports, which must be obeyed by all Swedish companies required to disclose an annual report. Finally, the SCA contains rules and requirements of which Swedish corporations need to comply. Additionally, rules issued by the SSBPA as well as Audit Standards, based on the International Standards on Auditing, apply for all audit assignments (SSBPA, 2011c).

4.1.2 Principles

GAAS and Professional Code of Ethics for Auditors (PCEA) in Sweden are based upon Internationally Accepted Standards (FAR 2001). The International Federation of Accountants publishes recommendations on auditing, which FAR has committed to follow and implement in Sweden. Although covering different parts of the audit area, PCEA is considered the broader concept of the two practices (Moberg 2006).

An auditor is obliged to follow PCEA according to the SAuA. The expression refers to the professional conduct of the auditor during an audit as well as in any other occasions relating to his professional position or occupation. According to FAR (2009), these guidelines develop over time due to changes in society and within accounting and auditing on both a national and international level. The SSBPA is the supervising and responsible organ to assure PCEA develops in a desirable direction (Regeringens proposition 2000/01:146).

Furthermore, FAR (2009) claims that GAAS is the practice a well experienced auditor with high integrity and good judgment carries out. Thus, competence, independence and professional secrecy are all essential qualities within the profession as stated in the SAA. Gathering specific restrictions for auditors under a common law would be difficult due to continuous changes over time. Another reason for using general principles like GAAS instead of specific rules is to avoid contradictory interpretations, which would limit the auditor's review. The proposition to the SAuA therefore recommended GAAS to be supervised and developed by the SSBPA and other audit organizations (Regeringens proposition 2000/01:146).

4.2 Audit quality

It has been argued that there is a continuous struggle within auditing between structured formal approaches on one hand and opportunity to individual judgments on the other hand. The ongoing trend towards increased structure is a consequence of the demand for legitimacy and control for audit firms. Additionally, it provides a partial solution to the agency problem. However, increased structure within auditing does not necessarily result in better auditing but is consistent with the development of auditing as a business. (Power 2003)

If choosing a judgment approach within auditing, one must first determine what "audit quality" is, as objective measures of this expression do not exist (Fischer 1996). Audit quality may be defined as "the probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach" (DeAngelo 1981, p. 186). Despite this definition, Power (2003) declares audit quality to be obscure even to the auditors themselves, as

it is not analytically clear what good auditing really is. As a result of this limited knowledge, studies reveal that the audit business instead chooses to rely on other elements such as dress code, few breaks during work, and willingness to work overtime when required (Anderson-Gough 2002, Macdonald, 1995). In addition, Fisher (1996) argues that auditors have traditionally relied on what was done previous years and choose to hold on to prior experiences and work practice without questioning them.

Carrington (2007) and Francis (2004) both attack the problem regarding audit quality inversely by examining what is *not* audit quality. Carrington (2007) argues that an audit has been insufficient whenever the auditor is subject to withdrawal of his authorization or approval. Francis (2004), on the other hand, believes that audit quality ranges from a low to a high level. In order to determine when audit quality does not exist, the lowest possible limit of audit quality needs to be defined. He declares the lowest limit to be whenever audit failures occur i.e. when auditors do not follow the law or fail to establish a correct audit report. "Audit quality is inversely related to audit failures: the higher the failure rate, the lower the quality of auditing" (Francis 2004, p. 346). Relating to audit quality, it has been argued that auditors choose to spend a large amount of time on objects that can easily and satisfactorily be verified. However, this strategy may lead to disregard of objects essential to investors and creditors (Öhman 2007).

4.3 Concepts of auditing

According to Gray & Manson (2005), the concepts of auditing are grouped in credibility, process, communication, and performance.

Credibility includes the personal qualities of the auditor such as competence, integrity, and ethics, meaning that the auditor must conduct his work with honesty, fairness and truthfulness. All of these steps are included in the planning part of the audit process, and is conducted before an eventual audit begins. Additionally, independence and objectivity within the audit profession is crucial. However, it has been argued that although aiming to put the stakeholder's interests above the client's, it may be psychologically impossible for auditors to maintain objectivity. Failures are inevitable irrespectively of the auditor's moral as "audit failures are the natural product of the auditor-client relationship" (Bazerman et al. 1997, p. 90).

Process concepts consist of risk, evidence, audit judgment, and materiality. All of these concepts exist to prevent any possible misstatements in the financial information handed out to its readers. The auditor must consider risks associated with the different accounts and transactions, gather evidence to prove the information given by management is valid and use audit judgment regarding assessments concerning the financial information. Furthermore, materiality is a decision tool, determining whether a misstatement in the financial statements is of importance to the user or not i.e. whether or not to accentuate the misstatement to the public. Recently, intentions of focusing on business risk rather than audit risk have been raised, as this approach would eventually translate into risk of financial statement error. Understanding a business and its environment provides the auditor with recognition of risks associated with management fraud and business failures (Curtis & Turley 2007).

Returning to the concepts of the audit process stated by Gray and Manson (2005), communication concepts include reporting, truth and fairness and association. It is essential for the auditor's reporting of a company to be credible and the information described to be according to truth and fairness. Furthermore, regarding association, the auditor has a responsibility to ensure that there is no conflict between the information contained in the reports given by management and the financial statements.

Finally, performance concepts relate to due care, standards, quality control, and rigour. Due care refers to the reliability the client places in the work of the auditor whenever a relationship has been established between an auditor and a client. The auditor is also expected to follow the standards of the audit profession and provide results with utmost quality. Gray & Manson (2005) finally describes rigour as adopting a questioning attitude at all times during the audit.

4.4 The Swedish Supervisory Board of Public Accountants

The Chambers of Commerce introduced in 1919 a board of auditors whose mission was to supervise auditors in Sweden. In the 1970's, this mission was transferred to the National Board of Trade and the SSBPA took over the operations in 1995. The establishment of an independent organization was a clear indication that supervision of auditors is important to the society. It was also seen as a clarification of the auditor's role in the fight against economic crime (SSBPA 2011d).

The two divisions within the SSBPA are the Secretariat of Investigation, where cases are processed, and the Regulatory Board, seen as the governing board. The Regulatory Board consists of nine members of which two are professional auditors. The SSBPA operates as an investigator in disciplinary issues related to auditing. Maintaining confidence in the auditor's activities and the authorization system are essential missions for the board. Its two main objectives consist of ensuring the availability of authorized auditors as well as supervising these auditors and audit firms (SSBPA 2011e). The SSBPA also aims to retain and develop professional ethics within the audit profession.

4.4.1 Approval and authorization

The requirements of becoming an approved auditor are at least three years of academic studies and three years of practical training under the supervision of an approved or authorized auditor. In addition, the auditor has to complete the examination for audit diploma, organized by the SSBPA. Furthermore, the requirements of becoming an authorized auditor are at least four years of academic studies and five years of practical training under the supervision of an approved or authorized auditor. The auditor also has to complete the examination for higher audit diploma. A decision regarding approval and authorization is valid for five years. Thereafter, if a new application is submitted, the matter will be reconsidered by the board. (SSBPA 2011f)

4.4.2 Disciplinary cases

The SSBPA receives notifications against auditors from external parties such as individuals, companies, authorities or through Systematic Outreach Supervision. Additionally, the SSBPA can open disciplinary cases without a notification, for example if advocated by media. (SSBPA 2011g)

An SSBPA disciplinary case includes an introduction part where the initiator of the case is presented as well as information about the auditor and his business. Thereafter, the case is separated into different parts depending on what types of failures and how many failures the specific auditor has caused during the audit of his client. Each failure is presented objectively and is followed by the opinion of the auditor and the assessment of the SSBPA. Finally, each case is completed by a summary assessment by the SSBPA, usually covering all of the assessments earlier made in the case, and the ruled sanction against the auditor (see Appendix 2).

4.4.3 Sanctions

The SSBPA may issue three types of sanctions consisting of reminders, warnings, and withdrawals of licenses. All three types of disciplinary sanctions may be appealed to the administrative courts (SSBPA 2011g). A reminder is the weakest form of sanction and is issued whenever an auditor has infringed GAAS or PCEA. According to the SAA 32§, the SSBPA may issue a reminder instead of a warning or withdrawal whenever it is sufficient. A warning is considered a more severe form of sanction compared to a reminder, and is issued whenever an auditor has failed to perform his duties as an auditor or in the audit firm. A warning may also be issued if the SSBPA considers a violation to be severe. The most determining sanction issued by the SSBPA is withdrawal of approval or authorization. According to the SAA 32§, an auditor who intentionally fails to fulfill his audit obligations or acts dishonestly is sanctioned with a withdrawal. Furthermore, whenever a warning has previously been issued and the infringement is repeated by the auditor, the sanction may consist of the SSBPA withdrawing the license. Withdrawal of approval or authorization means that the auditor must not continue his professional career as an auditor.

4.5 Categories of the study

The dissertation by Carrington (2007) provided the authors with a legitimate categorization system for the main categories of this study. Carrington (2007) chose to divide his categories according to process and professional failures. These types of failures are primarily based upon the two expressions GAAS and PCEA, where GAAS is connected to process failures and PCEA to professional failures. Thus, process failures occur during the audit of a client e.g. during the audit process, whereas professional failures occur whenever the auditor fails in his professional role. The main categories used in the study by Carrington (2007) will be presented below.

4.5.1 Error of judgment or execution when performing the audit

As the name reveals, this category includes both errors concerning judgment as well as execution when performing the audit. Accepting a valuation of an asset in the balance sheet without any investigation or not participating in the physical count of inventory are examples of failures in this category. This main category also includes the following 10 subordinate categories: *Annual report, Audit report, Bookkeeping, Cash & Bank deposits, Equity, Intangible assets, Inventory, Tangible assets, Taxes & Charges, and Short-term receivables.*

4.5.2 Insufficient documentation

According to regulation, the auditor is required to document all stages of the audit process. The documentation can later be used as evidence of what has been performed if the auditor is accused of an insufficient audit. Categorization may be challenging due to interpreting whether a failure is related to an insufficient audit or if the actual documentation is poorly made. A poorly conducted audit always results in reduced documentation. However, in this case failures derive from the execution of the audit rather than the actual documentation phase. Similarly, a flawlessly conducted audit may be poorly documented and the failure then derives from the documentation phase rather than the actual audit. Only the second example categorizes as *Insufficient documentation* in this study.

4.5.3 Insufficient or inadequate planning and risk assessment

To be able to perform a successful audit, individual planning and risk assessment for each client is essential. It is also important to explore the requirements necessary for accepting a new

assignment as well as to gain knowledge about the client and its business once the process has begun. Failing to plan and assess risks regarding the assignment may result in the SSBPA charging the auditor of *Insufficient or inadequate planning and risk assessment*.

4.5.4 Failure to report suspicion of criminal activities

This category includes disciplinary cases where the SSBPA clearly states that the auditor has failed to report suspicion of criminal activities to the authorities. As reporting of criminal activities is required by Swedish law, this category of failure is another type of process failure that may be reported in the disciplinary cases.

4.5.5 Lack of independence

Independence and impartiality among auditors is of farthest importance to achieve confidence in the audit profession. FAR (2009) claims in its ethic guidelines that independence within auditing consists of two parts. The actual independence is the state of mind which allows an individual to have value-free opinions and to act with integrity, impartiality and with a professional judgment. The visible independence, however, is to avoid any occasion where a judicious person could assume that actual independence does not exist concerning an auditor and his client. This category contains both types of situations regarding financial, family, business and employment relationships, which may compromise the independence of the auditor. Failures regarding *Lack of independence* were separated into the subordinate categories *Conflict of interest* and *Challenge*.

4.5.6 Unprofessional conduct

This category contains failures regarding the professional conduct of the auditor. Both failures regarding the conduct of the audit assignment as well as failures regarding the auditor's actions are included in this study. Examples of situations consist of emitting false certifications or the auditor's negligence to pay taxes and charges for his audit firm.

4.5.7 Shortcomings in the audit firm organization

Unlike *Unprofessional conduct* of the auditor, only failures concerning the organization of the audit firm classify in this category. Storing documentation in a non-orderly manner or relying on unqualified auditors' work for audit assignments are examples of *Shortcomings in the audit firm organization*.

4.5.8 Failure to cooperate with the SSBPA's investigation etc.

When an auditor is subject to supervision by the SSBPA, he is required to provide documentation of his audit and any other documents facilitating the SSBPA's investigation. Refusing to provide these documents is an example of *Failure to cooperate with the SSBPA's investigation etc.* Other administrative matters qualifying in this category includes personal bankruptcy of the auditor or breaking the employment prohibition for auditors.

Chapter 5: Empirics & Analysis

In this part the empirical results of the study are presented together with the analysis and interpretations made by the authors.

5.1 Withdrawals of authorizations and approvals

The total number of withdrawals during 1995–2010 was 77. As all disciplinary cases with a final verdict during the chosen years were 683, withdrawals represented approximately 11 percent of these cases. The fact that the study included 77 cases resulting in withdrawal of licenses did not mean that there were only 77 failures, as the majority of the disciplinary cases included more than one failure.

Table 5.1 Number of withdrawals per year

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
0	3	4	4	8	4	6	5	4	7	10	2	7	4	5	4	77

Source: The SSBPA’s disciplinary cases

The total number of withdrawals for each year can be seen in Table 5.1. The variation over time is relatively wide. However, the authors refrain from any conclusions concerning trends as the number of withdrawals are based upon the year that the SSBPA reached a decision and not

Table 5.2 Compilation of this study

Process failures	62 (81%)
Error of judgment or execution when performing the audit	62 (81%)
<i>Inventory</i>	39 (51%)
<i>Annual report</i>	34 (44%)
<i>Taxes & Charges</i>	24 (31%)
<i>Cash & Bank deposits</i>	23 (30%)
<i>Audit report</i>	20 (26%)
<i>Short-term receivables</i>	20 (26%)
<i>Equity</i>	19 (25%)
<i>Tangible assets</i>	13 (17%)
<i>Intangible assets</i>	11 (14%)
<i>Bookkeeping</i>	9 (12%)
Insufficient documentation	36 (47%)
Insufficient or inadequate planning and risk assessment	19 (25%)
Failure to report suspicion of criminal activities	2 (3%)
Professional failures	62 (81%)
Lack of independence	40 (52%)
<i>Conflict of interest</i>	25 (32%)
<i>Challenge</i>	23 (30%)
Unprofessional conduct	27 (35%)
Shortcomings in the audit firm organization	10 (13%)
Failure to cooperate with the SSBPA’s investigation etc.	11 (14%)
All cases	77 (100%)

disciplinary cases resulting in withdrawal of approval or authorization includes diversified types

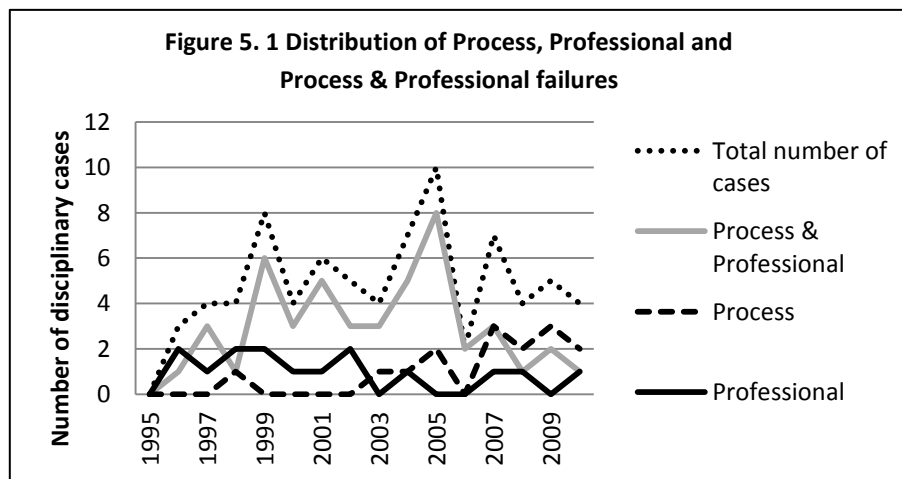
the year the actual failure occurred or the actions of the auditor was reported to the SSBPA. Furthermore, the amount of failures detected may be a result of increased supervision of the SSBPA rather than an increase in total failures caused by auditors. Finally, one must keep in mind that not all of the disciplinary cases are published on the SSBPA website, as explained in Chapter three.

Table 5.2 illustrates the number of disciplinary cases including failures of each category as well as the frequency in terms of all 77 disciplinary cases. In addition, Appendices 4 and 5 contain compilations of all main and subordinate categories presented in diagrams.

Out of the 77 disciplinary cases included in this study, 61 percent consisted of both process and professional failures. This percentage indicates that a majority of the

of failures regarding both the audit work and the professional conduct of the auditor. Furthermore, 19 percent of the cases resulted in process failures solely and the same percentage was related to professional failures solely. Hence, no distinguish between the two types of failures can be made. However, the authors conclude that professional failures were more frequent during 1995-2003 whereas process failures increased in recent years (see Figure 5.1). Presume this trend continues, process failures will become more frequent in the future while professional failures will decrease.

Detailed information and analysis of the empirical results will be further presented in connection to each main and subordinate category. These categories will be ranked firstly according to process and professional failures, and secondly according to frequency. Further, the presentation of each category is introduced by a general description of the frequency of failures over the research period. Thereafter, frequently reported failures within the specific category as well as references to regulation will be presented, followed by comments by the authors referring to specific disciplinary cases. Comments by the authors are based on the failures caused by auditors in this study. Hence, the analysis does not describe the audit profession in general. Finally, detailed examples of failures within each category will be listed in order to increase the understanding of the content of the disciplinary cases.



5.2 Error of judgment or execution when performing the audit

This main category, included in 62 disciplinary cases, is the most frequently mentioned in all of the disciplinary cases. During the entire research period included in this study, the number of failures regarding *Error of judgment or execution when performing the audit* corresponded with the total number of withdrawals (see Figure 5.2). Except for four years during 1995-2010, failures regarding *Error of judgment or execution when performing the audit* were included in 75 percent or more of the disciplinary cases resulting in withdrawals each year. Consequently, this type of failure was by far the most frequently reported in this study.

Brown & Calderon (1993) stated a frequency of 43 percent regarding failures related to *Lack of sufficient evidential matter*, which may be interpreted as a part of this general category. Furthermore, the American study showed that 39 percent of the 156 SEC disciplinary releases included *Improper reliance on management*. It is difficult for the authors to assess whether failures regarding *Lack of sufficient evidential matter* and *Improper reliance on management* overlap or together constitute of 82 percent of the SEC releases. Nevertheless, the authors suggest

that *Error of judgment or execution when performing the audit* appears to be a critical area for auditors in general. Campbell & Parker (1992) also confirmed difficulties regarding this category, as their study stated a frequency of 83 percent of the 106 SEC disciplinary releases regarding failures related to *Sufficient competent evidential matter*. The American study also stated that 50 percent of the releases reported failures of *Client representation overreliance*.

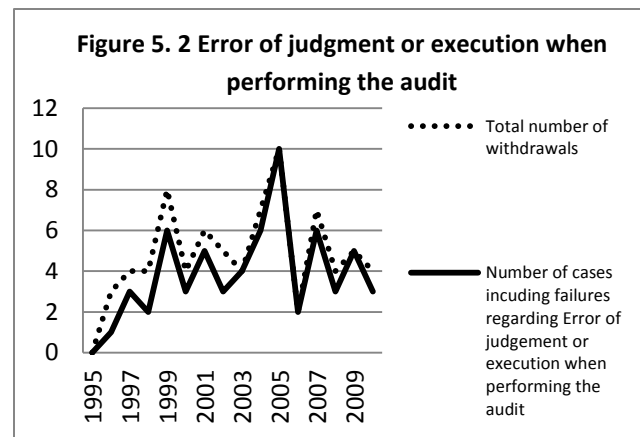
As was the case in the SEC releases, failures concerning improper reliance on management occurred rather frequently in the SSBPA cases. However, this category was not included in this study, as failures concerning improper reliance on management refer to other categories. Based on the empirical results, the authors distinguished two different reasons for this improper reliance reported in the SSBPA disciplinary cases.

Firstly, a well conducted audit is time-consuming, which may encourage the auditor to take "short-cuts" through the audit process by relying on information given by the management (e.g. D 12/04). Secondly, many auditors in this study claim to know their client and are confident that the information given by the management is correct. Consequently, the auditors claim that further audit is unnecessary (e.g. D 22/04).

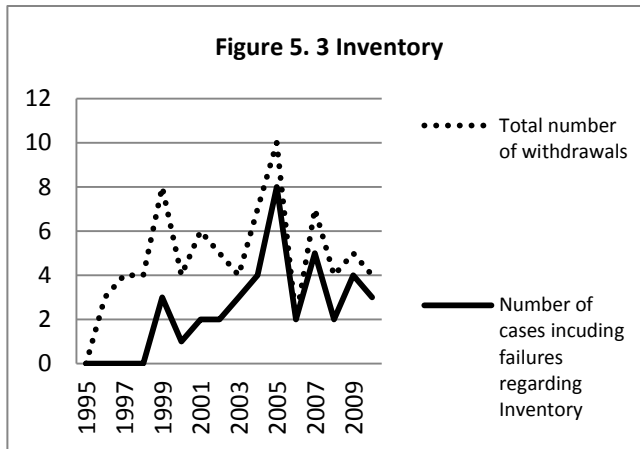
The 10 most frequently reported subordinate categories connected to *Error of judgment or execution when performing the audit* will be presented below. Hence, excluded are the categories *Financial assets* (8 failures), *Short-term liabilities* (8 failures), *Collaterals pledged and contingent liabilities* (7 failures), *Long-term liabilities* (5 failures), *Short-term investments* (2 failures), *Untaxed reserves* (0 failure), and *Provisions* (0 failure). The category *Other* (18 failures) was also excluded from the presentations below. Worth mentioning is that within this category, 7 disciplinary cases of which the SSBPA summary assessment only consisted of the expressions "serious deficiencies with regard to implementation of audit assignments" as well as "the auditor has not proven to have conducted a proper audit" were included. Thus, any further categorization of these cases could not be concluded. The remaining failures within the category *Other* consisted of various types of failures and were therefore assessed as insignificant to this study.

5.2.1 Inventory

This category, reported in 39 disciplinary cases, includes failures regarding inventory as well as work in process. Failure to conduct a sufficient audit of inventory was the most frequently reported subordinate category in this study. As shown in Figure 5.3, failures concerning *Inventory* occurred in nearly all disciplinary cases each year since the beginning of the 21st century. A decrease of failures within the area cannot be identified. As for the last decade, failures of the category were consistent with the trend regarding the total number of withdrawals. The most common failure within this category was a general insufficient audit, which prevented the auditor from determining the existence and value of inventory. The most reported specific type of failure was not participating during stocktaking, which was frequently mentioned in combination with neglecting to review the routines for the inventory. In several cases, the auditor had relied on information given by clients, consultants, accounting agencies or audit assistants. According to the SSBPA, the auditor should, whenever possible, participate at stocktaking on the



balance sheet date in order to ensure the existence of inventory. Furthermore, a comparison between the information obtained during the stocktaking and the information found in



the stock accounts should be made. If the auditor cannot participate during stocktaking on the balance sheet date, the auditor may do his own observations in close connection to this date. However, an assessment of the inventory routines in previous years must have been performed. Another significant failure within this category constituted of an insufficient audit of work in process, which was reported in 17 disciplinary cases. The majority of auditors in these cases had generally failed to perform a correct audit regarding internal controls,

degree of completion, and contract price. Furthermore, the auditors failed to assess the risk of additional costs and reservations for warranty cost. According to the SSBPA, the auditor must determine which projects that are completed at the balance sheet date and thus may be recognized as income on the balance sheet. Non-completed projects should be activated as work in process, based on the degree of completion and contract price. Furthermore, it is essential for the auditor to assess the risk of additional costs and the existence of construction guarantees.

Failure to participate in the physical observation of work in process occurred in 4 percent of the SEC releases in the study by Brown & Calderon (1993). The authors claim that an explanation to the reason of why the results concerning the SSBPA show a higher percentage of failure than the American study, may derive from the fact that this category includes not only failures concerning the physical observation of work in process but also other failures concerning the specific asset. However, according to the authors, these results indicate that work in process may be an area where an extensive audit is necessary.

The authors believe the empirical results to indicate inventories to be complicated to evaluate due to complex commodities. This corresponds to Öhman (2007), who argues that auditors are reluctant to audit objects that cannot be satisfactorily verified. Furthermore, inventory is often a major asset in the financial statements for many companies, thus over- or understatements regarding this asset often result in significant impacts on the statement of income. Based on previous arguments, the authors suggest investigations of inventory made by the SSBPA to be justified and may explain why failures regarding *Inventory* are frequently mentioned in the disciplinary cases. Based on the empirical results, participating in the physical stocktaking is one of few clear requirements to fulfill the requisites of a sufficient audit of inventory. The authors mean that earlier disciplinary cases revealed that auditors in general were unaware of or chose to ignore this requirement (e.g. D 44/00-01). However, this study shows that an improvement regarding this matter has occurred in recent years, although the SSBPA still convicts auditors for insufficient audit of inventory due to other types of failures. Based on the disciplinary cases in this study, the authors found it difficult to assess what level of audit the auditor must achieve in order to correctly determine existence and value of inventories. Although work in process is not included in all types of businesses, failures connected to this asset received a high percentage of all disciplinary cases in this study. According to the authors, this high percentage indicates that auditing of work in process is complex and requires knowledge within the area. Furthermore, the authors suggest the empirical results to indicate that auditors failing this category did not possess

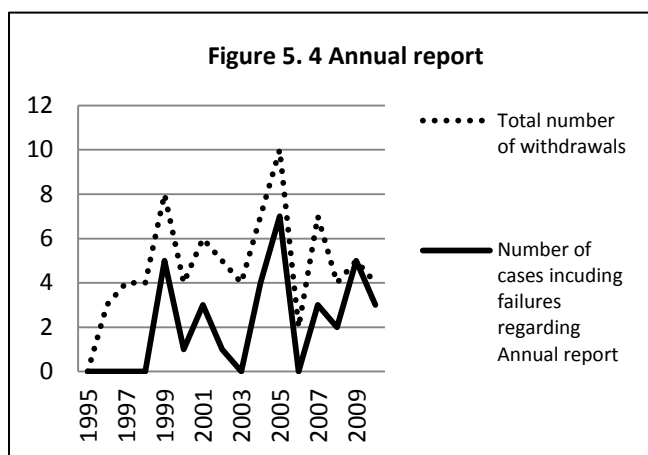
the expertise necessary for performing a sufficient audit regarding work in process (e.g. D 44/00-01).

In D 44/00-01, the auditor had not participated at stocktaking since 1973. Despite this fact, the auditor approved adjustments of inventories to a value of the difference between input and output value. The SSBPA clearly stated that stocktaking should preferably be done once a year.

In D 29/03, the auditor had referred to lists of project accounts made by the client. However, the auditor had never assessed the reliability of these lists and therefore had not been able to confirm whether revenue and expenses were correctly reported. Furthermore, based on improper reliance on management, the auditor established that the company only had fixed-price projects. The SSBPA assessed that the auditor had failed to perform an acceptable audit of work in process.

5.2.2 Annual report

This category, reported in 34 disciplinary cases, includes failures referring to the actual annual report, excluding failures occurring in the audit process. As illustrated in Figure 5.4, disciplinary cases featuring failures regarding the *Annual report* were consistent with the trend regarding the total number of disciplinary cases resulting in withdrawals. The most frequent failure in this category referred to the auditor approving the annual report despite lack of additional information and notes.



Furthermore, inaccurate classification of assets and liabilities, incorrect comparative numbers regarding previous years, and netting of income and expenses were reported in several disciplinary cases. According to the SAAA 5:1, the annual report must include certain additional information and notes. Furthermore, the SAAA 4:2 prohibits netting of income and expenses whereas the SAAA 3:3-4 includes information on compelling layout and classification of the balance sheet and income statement. Late submissions of

annual reports and the auditor's negligence of reporting this was also a frequent failure reported in this study. The SCA 7:10 states that the board of a company is obliged to present an annual report at the general meeting, which must be held within six months of the end of the fiscal year. In 12 disciplinary cases, the auditor failed to conduct a sufficient audit concerning the group statements. The most frequent failure regarding these specific statements was omitting to remark in the audit report of the client's negligence to specify the proportions of purchases and sales that were allocated to other group companies. Another common failure of which the auditor failed to remark, was neglecting to eliminate income and expenses related to transactions within group companies. According to the SAAA 5:7, group companies are obligated to inform of such specifications and eliminate party-related transactions. Furthermore, 8 disciplinary cases included auditors who failed to review or inform the board of lack of information regarding significant events of the company occurring during or after the end of the fiscal year. According to the SAAA 6:1, information on such significant events should be disclosed in the management report of the annual report. This study also presented failures regarding the auditor's negligence to

criticize the board for backdating annual reports as well as not informing on the replacement of older versions of annual reports with updated ones. Finally, lack of information in the director's report concerning the operation of the company, continuing operations, financial position and the result of the company were other failures the auditor typically neglected to report.

Failures associated with the *Annual report* was also a critical area in the study conducted by Brown & Calderon (1993), as 38 percent of the SEC releases included *Failure to disclose items or improper classifications* in the annual reports. Additionally, both American studies revealed that failures concerning *Related party transactions* were common, which is consistent with the results of this study. However, this specific type of failure occurred more frequently in the American studies, as Brown & Calderon (1993) stated that *Failure to disclose related party transactions* occurred in 25 percent of the SEC releases while the percentage in the study by Campbell & Parker (1992) was as high as 37.

The authors appoint that an incorrect annual report affects shareholders, to whom this information is essential. The authors suggest this motive to be the reason why the SSBPA frequently reports failures concerning the *Annual report*. As the law clearly states what is required in a proper annual report, the authors believe that failures such as inaccurate classification of assets and liabilities or lack of additional information and notes, occur partly due to negligence or ignorance (e.g. D 18/01). According to the authors, a simple checklist stating all the components and information necessary for a correct annual report would be an efficient tool in preventing the auditor from accepting an improper annual report. Furthermore, the authors assess the auditors in this study to be unaware of the fact that they are required to review significant events of the company that occurred during or after the fiscal year, which indicates lack of knowledge (e.g. D 13/10). A late submitted annual report is a clear violation of the SCA. Additionally, evidence of this failure can be found rather easily, which the authors suggest may explain why this type of failure was significant within this category. Even though regulation concerning submission of the annual report is clear, many auditors failed to report this error. The authors therefore believe that some auditors do not assess this failure to be of serious matter and therefore omit to remark in the audit report (e.g. D 34/99). The authors also noticed a general lack of knowledge concerning structures of group companies and how to establish group statements, which led to many of the failures mentioned in the disciplinary cases. Additionally, based on the empirical material, the authors claim complex group structures to occasionally be difficult for some auditors to analyze (e.g. D 37/07). However, several cases revealed that the auditor failed to remark on absent information in group statements or required eliminations, which the authors suggest indicates negligence of the auditor rather than lack of knowledge (e.g. D 17/05). As was suggested regarding the *Annual report*, the authors propose that a simple checklist including all of the necessary attributes concerning group statements would prevent auditors from failing this category.

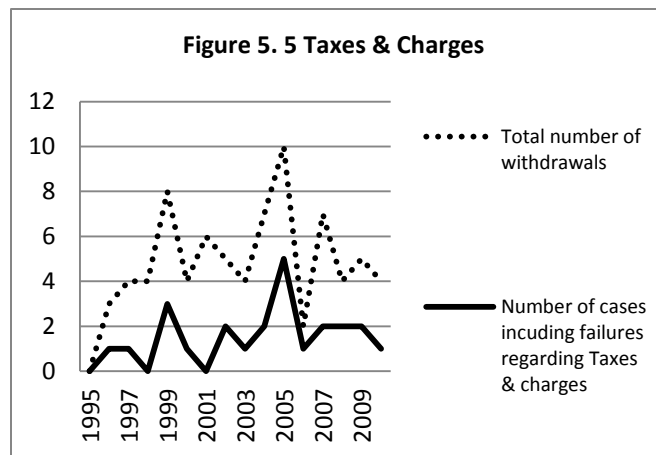
In D 34/99, the SSBPA addressed the problem with delayed annual reports. The annual report of the specific client was submitted and signed with a delay of more than six months. Despite this significant delay, the auditor ignored to report this in the audit report. The SSBPA stated that such negligence is in contrary to the duties of an auditor.

In D 9/02, the auditor had not observed that internal purchases and expenses were not eliminated in the income statement. Furthermore, the auditor had failed to notify that receivables and liabilities between group companies were not separately reported as receivables from group

companies and liabilities to group companies. The SSBPA stated that the auditor had failed to conduct a proper audit of the group statements.

5.2.3 Taxes & Charges

This category, reported in 24 disciplinary cases, includes all types of taxes and charges such as value-added taxes, taxation of benefits and income taxes. As shown in Figure 5.5, the number of failures regarding *Taxes & Charges* corresponded with the trend of the total number of withdrawals. Except for three years during 1995-2010, errors concerning *Taxes & Charges* were reported each year. Consequently, this category was one of the most frequently mentioned in this study. In the majority of the cases in this category, the auditor failed to remark in the audit report that taxes and charges were not paid on time or not paid at all. Accordingly to the SCA 10:31, the auditor is obliged to remark in the audit report whenever the client has not fulfilled its obligations to pay taxes and charges on time. In several cases, the auditor failed to investigate whether taxation of benefits regarding company cars and housing was required. Moreover, the auditor often neglected to investigate whether the financial statement included non-operating costs resulting in value added tax being incorrectly deducted.



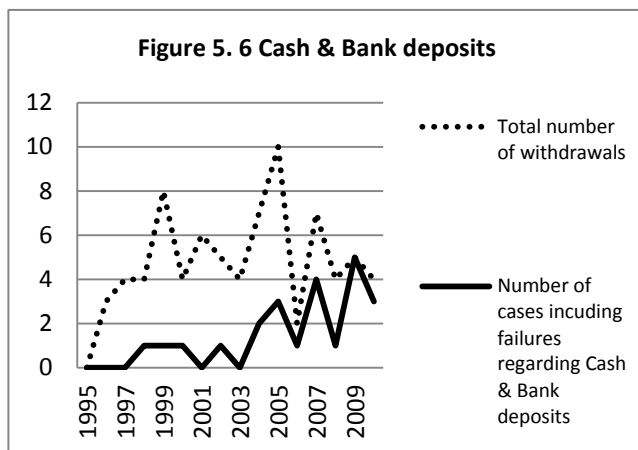
The empirical results show that the STA was the initiator in 40 percent of the cases resulting in failures concerning *Taxes & Charges*. As the STA focuses on finding these types of failures, the chances of discovering them increase. The authors therefore claim this category to be reported more frequently than if the STA was not such a frequent initiator. In the majority of the disciplinary cases concerning *Taxes & Charges*, a sufficient audit was made and any possible failures were reported back to the company. However, according to the authors, auditors often neglected to remark of this failure in the audit report (e.g. D 18/05), which indicates failure to achieve audit quality (DeAngelo 1981). Furthermore, based on the empirical results, the authors assess that auditors tend to disregard other types of taxes and charges than the ordinary types, such as taxation of benefits (e.g. D 32/07).

In D 34/03, the preceding auditor had previously found significant insufficiencies in the reporting of taxes and charges. However, despite previous failures, the auditor had not extended his audit. The SSBPA stated that the auditor had failed to conduct a sufficient audit regarding taxes and charges.

In D 43/10, the client was involved in buying and selling second-hand goods with private persons. As the client was not allowed to deduct input tax although still having to pay output tax, an increased risk of double taxation existed. In order to avoid this situation, the use of profit margin tax is allowed. According to SSBPA, the auditor had failed to investigate whether the client was allowed to use profit margin tax.

5.2.4 Cash & Bank deposits

This category, reported in 23 disciplinary cases, includes failures related to cash and bank deposits as well as revenue recognition. As shown in Figure 5.6, failures regarding this category were barely referred to before 2004. Thus, the frequency of this category did not correspond to the trend of total withdrawals. During recent years however, failures of this category increased although variations existed over the years. A general insufficient audit of revenue recognition was the most common failure within this category. Neglecting to investigate the routines of the client regarding cash registration, cash management, and reconciliations was also frequently reported. Furthermore, in several cases the auditor failed to examine commitment statements of the bank and cash registers. According to the SSBPA, the auditor should review the routines of cash management whenever cash sales are of importance for the client firm.



Brown & Calderon (1993) stated that 31 percent of the SEC releases included *Violation of revenue recognition rules*. This percentage is consistent with the result of this study. However, the categories are somewhat inconsistent as this study provides a deeper explanation to the failures concerning revenue.

Revenue as well as cash and bank deposits exist in all corporations and are the basis of the result of which a company eventually presents. Based on this motive, and the fact that cash is considered to be a risk, the

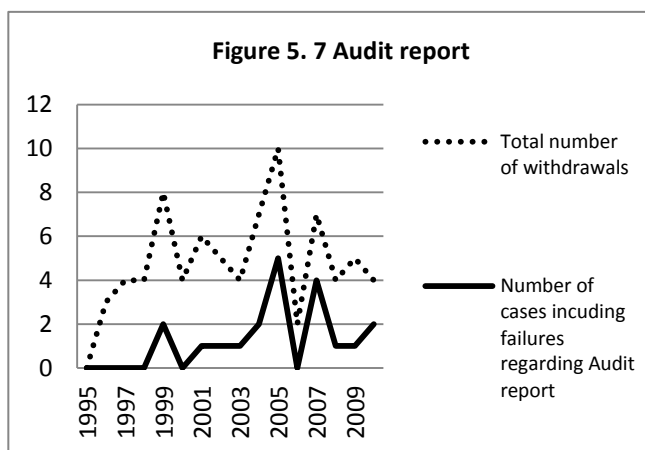
authors claim that it is essential for both the auditor as well as the SSBPA to conduct a thoroughly examination regarding this category. The authors suggest that these facts may explain why this category was frequently reported in many of the disciplinary cases. Based on the empirical results, the authors assess regularly occurrence of rather extensive failures regarding this category, such as failure to audit overall procedures regarding cash management and registration. The STA initiated 38 percent of the disciplinary cases resulting in failures concerning *Cash & Bank deposits*. As was the case with *Taxes & Charges*, the authors believe correct revenue recognition of corporations to be in the interest of the STA (e.g. D 35/10). Thus, the frequency of detected failures in this category may have increased due to the fact that the STA is a frequent initiator of disciplinary cases. The authors predict that the problem concerning cash management may decrease in the future, as credit cards increasingly replace cash. Furthermore, the new Swedish cash register legislation may also have a positive effect on revenue recognition, and contribute to decreased failures concerning *Cash & Bank deposits* in the future.

In D 28/07, the client engaged in sales over the counter and cash management was therefore crucial. The auditor had simply investigated if transactions of money had occurred within the business or not. Descriptions of routines or information whether registrations of payments were done through a cash register were nowhere to be found in the documentation. The SSBPA reported that only verifying that a specific amount of money is deposited into the bank account is not equivalent to controlling routines for cash management.

In D 31/09, the client was registered as inactive but nevertheless had reported a cash balance of 98,000 SEK. Furthermore, on the balance sheet date a difference between the actual and reported balances of the checking account existed. Neither of the mentioned insufficiencies had been notified by the auditor. The SSBPA clearly stated that the auditor had failed to perform a proper audit.

5.2.5 Audit report

This category, reported in 20 disciplinary cases, includes all types of deficiencies in the content and/or design of the audit report. Excluded are disciplinary cases in which the SSBPA notified that a failure should have led to a remark in the audit report, as this is not a failure regarding the *Audit report* but refers to the audit process. As illustrated in Figure 5.7, failures regarding this category were not reported until 1999 and have since been on a rather steady level of 0-2 per year. Two peaks may be distinguished during 2005 and 2007. However, the number of failures for these years corresponded to the trend of total number of withdrawals. The most frequent failure regarding the *Audit report* constituted of the auditor's failure to, in connection to the



auditor's signature, notify that the audit report contained comments. Accordingly to the SCA 9:28, the auditor's signature must indicate if the audit report contains any comments concerning the audit process. Another frequent failure constituted of the auditor signing and dating the audit report before the actual audit process was completed, which conflicts with GAAS. Furthermore, submitting an audit report without having received the annual report signed by the board of the company was another type of common failure. This study

also presented failures such as not designing the audit report in a proper way, referring to incorrect legislation, deliberately backdating the report, and not notifying that a new version of the report replaced an older version.

The authors believe that auditors failing this category are reluctant to remark on failures in the audit report, as this action may lead to negative consequences for both the client as well as the audit firm. Indeed, Moore et al. (2010) argue that auditors are hesitant to issue an adverse audit report due to personal links with their clients and knowledge of the negative effects that an adverse audit report may cause. On the other hand, the investors or potential investors who they represent are unknown strangers. Furthermore, the authors of this study suggest that failure to, in connection to the auditor's signature, notify that the audit report contains comments indicates negligence or lack of knowledge (e.g. D 41/05). This type of failure may easily be prevented by emphasizing the importance of a correct auditor's signature. Several auditors appoint that dating the audit report before the audit is completed is standard behavior within the audit profession (e.g. D 18/05). The authors claim this type of failure to be an obvious failure, which may indicate disorganization or stressful working conditions.

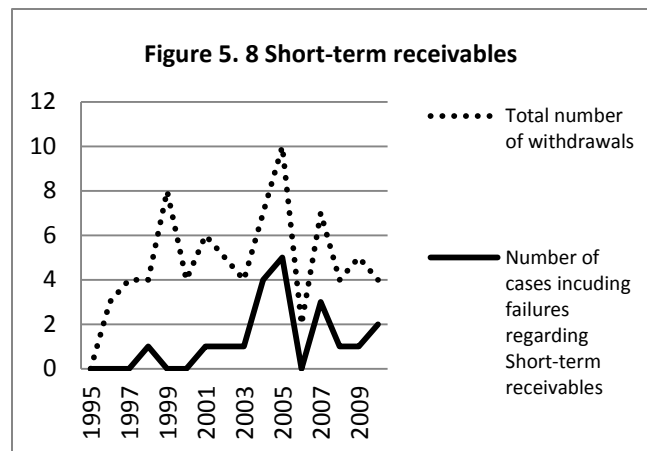
In D 18/05, the auditor had submitted her audit report before the audit process was completed. The auditor had made review notes after the stated date and material essential for the audit

process had been dated later than the date showing in the audit report. According to the auditor herself, it is common for the audit process not to be completed by the date which is stated in the audit report. Due to "convenience", a change is not made regarding the date that the accounting firms have stated in connection to the auditor's signatures in the annual reports. Thus, the date of the audit report is therefore based upon the date which is stated in the annual report. The SSBPA clarified that according to GAAS, an audit report should be dated and signed in the immediate connection to the closure of the audit.

In D 10/07, the auditor had emitted an audit report even though the company had filed for bankruptcy and no audit had been performed. The SSBPA stated this act to be a clear violation of GAAS, as the purpose of auditing diminishes when an auditor neglects to perform an audit and still submits an audit report in which he certifies that an audit has been performed.

5.2.6 Short-term receivables

This category, reported in 20 disciplinary cases, includes short-term receivables defined as accounts receivable, prepaid expenses and accrued income and other receivables, although the majority of failures derive from accounts receivable solely. Except for 2004-2005 and 2007, failures of this category occurred on a steady level between 0-2 over the entire research period (see Figure 5.8). The mentioned years is the only period where this category consisted with the trend of the total withdrawals. However, since the frequency of failures in this category was rather low for each year, the authors found it difficult to further analyze this matter. The most frequent failure concerning this type of asset was a general lack of examination regarding existence and valuation. In several disciplinary cases, the auditor relied on information provided by the client without further verification of the existence or value. Furthermore, the auditor frequently neglected impairments despite the fact that accounts receivable were unpaid for several years. This passivity and inadequate investigation is a negligence of GAAS.



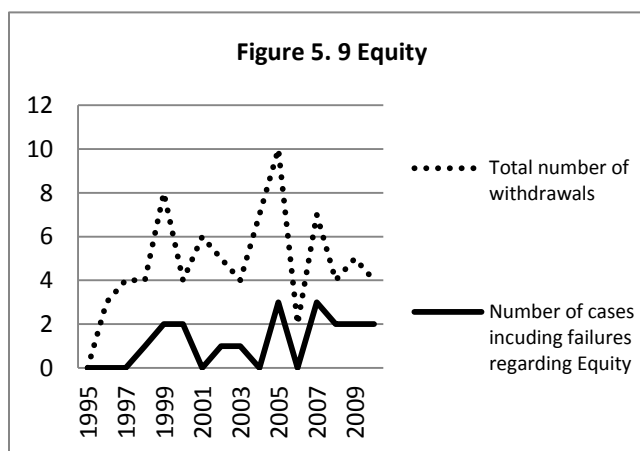
As accounts receivable are connected to revenue, it is essential for both auditors and the SSBPA to examine this category. The authors suggest that a thorough review by the SSBPA may therefore have increased the number of disciplinary cases including this type of failure. The authors assess the majority of auditors failing this category to conduct an overall insufficient audit of accounts receivables. Furthermore, based on the disciplinary cases, the authors found it difficult to determine what level of audit the auditor must conduct in order to correctly determine existence and value of the accounts receivables. One scenario included an auditor who repeatedly tried to gather information from the client concerning short-term receivables. As the client continually neglected to provide any information whatsoever, the auditor considered the short-term receivables as unsecure and submitted an audit report deviating from the standard form. However, the SSBPA assessed the auditor to be too passive in his search for information. Therefore, by submitting an audit report deviating from the standard form, the SSBPA stated that the auditor had violated GAAS (e.g. D 43/10). This scenario further strengthens the authors' difficulties in assessing what a sufficient audit regarding accounts receivables is.

In D 22/04, the auditor had neglected to verify the existence of the accounts receivable. As he considered his client being careful and reliable concerning his bookkeeping, a single phone call with the owner was enough for the auditor to verify the amount. The SSBPA accentuated the importance of always verifying given information regarding the existence of an asset.

In D 6/04, short-term receivables were the primary asset in a client company and nearly 90 percent of the amount derived from only one customer. Even though several unsuccessful attempts had been made by the company to receive the amount, the auditor still assessed the asset as secure. According to the auditor himself, the fact that the accounts receivable were related to an American company, owned by a German listed corporation, made it secure. The SSBPA made it clear that a claim towards a listed corporation does not automatically make a claim secure.

5.2.7 Equity

This category, included in 19 disciplinary cases, will discuss failures regarding equity. As shown in Figure 5.9, failures of this category were reported during most of the research period, although the number of disciplinary cases containing this type of failure never exceeded 3. As many as 8 disciplinary cases including failures regarding balance sheet for liquidation purpose occurred during 2005-2010 while the remaining 2 cases were reported during 1999-2000. Indeed, the most frequent type of failure in this category constituted of failures regarding balance sheet for liquidation purpose. The auditor either failed to remark in the audit report that no balance sheet for liquidation purpose had been established or he simply referred to the rules of liquidation of the SCA without informing that the board had infringed the law by not establishing the required document. In several cases the auditor failed to encourage the board to inform of the future



situation of the company in the director's report as a result of the consumed shared capital. According to the SSBPA, the auditor should, if his client infringes the SCA 25:13 by consuming half of the shared capital, inform the board of the circumstances and remark on the infringement in the audit report. Furthermore, several auditors failed to detect prohibited loans. According to the SCA 21:1, corporations may not submit loans to shareholders unless the loan exclusively is intended for the business of the debtor and the lending company provides the loan for purely

commercial reasons. Even though the prohibited loan is repaid prior to the end of the fiscal year, a remark in the audit report should occur. Another failure constituted of the auditor approving dividends not corresponding to the rules of the SCA. According to the SCA 12:2-3, dividends may never exceed the amount in the balance sheet recognized as non-restricted equity.

As failures concerning balance sheets for liquidation purposes re-occurred several times during the research period, the authors conclude a lack of knowledge regarding the regulation and the requirements the SSBPA places on auditors concerning this matter. However, the authors further suggest that auditors seem aware of situations when liquidation duty exists but lack knowledge of how to present this information in the audit report (e.g. D 43/10). By not reporting

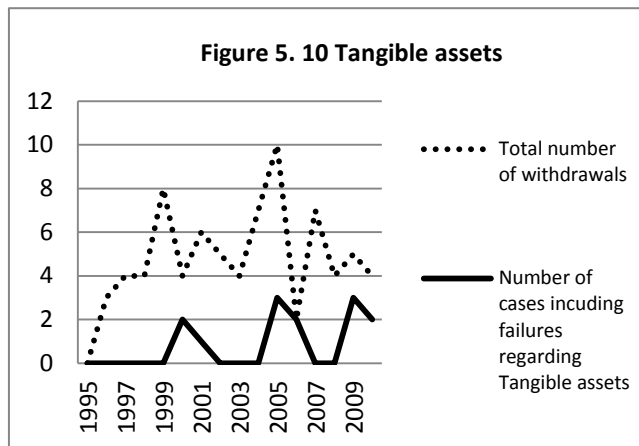
this type of failure, auditors failed to achieve audit quality (DeAngelo 1981). The authors also claim unawareness of the auditors in this study regarding the fact that a prohibited loan exists although repaid before the end of the fiscal year (e.g. D 35/10). Furthermore, the authors assess the other types of failures in this category to derive from negligence or ignorance, as rules concerning dividends and protection of creditors are clearly stated in the Swedish regulation.

In D 39/99, the shared capital of the client had been consumed for many years. The auditor had requested the board to establish a balance sheet for liquidation purpose, but the proposal was declined. Although the auditor chose to remark on this in the audit report, the remark had been limited to only referring to the rules of liquidation of the SCA. The SSBPA stated that the auditor in addition should have remarked on the board's infringement of the SCA 25:13 by not establishing a balance sheet for liquidation purpose. Furthermore, as a result of the consumed shared capital, the auditor should have encouraged the board to inform of the future situation of the company in the director's report. If the board was to neglect the mentioned complements, the auditor should have remarked on these circumstances in the audit report.

In D 35/10, the client had lent money to its owner. The auditor had failed to investigate whether commercial reasons existed or not. The auditor claimed the question of prohibited loan to be insignificant, as the loan was repaid prior to the end of the fiscal year. The SSBPA stated that the question of prohibited loan was indeed relevant even though the loan had been repaid prior to the end of the fiscal year.

5.2.8 Tangible assets

Tangible assets, included in 13 disciplinary cases, constitutes of assets such as machinery, equipment and buildings. As illustrated in Figure 5.10, this category was not consistent with the trend of total withdrawals, as failures occurred in three two-year periods. The most frequent failures concerned depreciation of tangible assets. In nearly all 13 cases, the auditor approved of an incorrect method for depreciation or no depreciation at all. The auditor frequently accepted the negligence of depreciation due to the client's weak income statement. Depreciation was thus conducted arbitrarily depending on whether the result of the company permitted it. In nearly 50 percent of the cases, a surplus value concerning buildings was the reason for the auditor to neglect depreciation on these. According to the SAAA 4:4, a fixed asset with a limited useful life must systematically depreciate over time. The SSBPA states that neglecting depreciation, even if a surplus is connected to an asset, means violating the SAAA and is therefore not acceptable. Another common failure connected to *Tangible assets* in this study was the negligence of verifying the existence of machinery and equipment. The failure constituted of the auditor's trust in the information given by the management without undertaking a thoroughly investigation of his own.

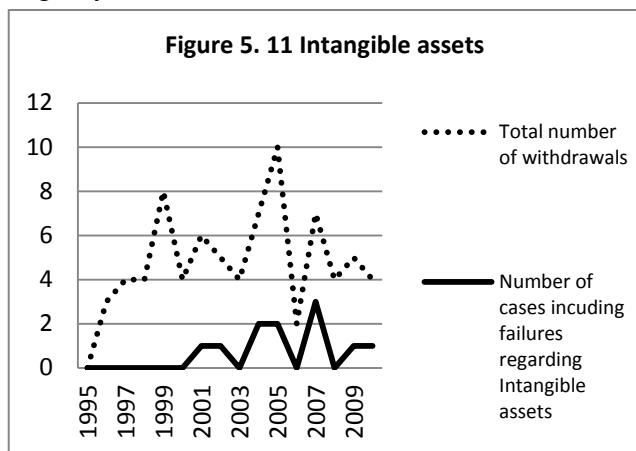


The authors claim this category often to be a major asset in the balance sheet within many corporations. Hence, failures concerning *Tangible assets* may cause large effects on the statement of income. As regulation concerning depreciation is straightforward, the authors are surprised of the large number of failures occurring in this category. The authors suggest that some auditors seem unaware of the fact that depreciation must occur even though the specific asset or another asset contains a surplus value (e.g. D 3/06). Furthermore, the authors assess this category to include much subjectivity in terms of the auditor's assessments, as auditors showed a remarkable flexibility to please clients' wishes of reporting specific results (e.g. D 41/05). This result is consistent with the argument that "auditors who identify more with a client are more likely to acquiesce to the client-preferred position" (Bamber & Iye 2007, p.1).

In D 52/00-01, the client had recently opened a clothing store and had therefore invested in the store decor and equipment. According to the auditor, depreciation of these assets had been neglected as the store decor was relatively cheap compared to the amount of money other similar stores invested in their premises. Furthermore, the same case included omission of depreciation as the income of the company did not "allow" any additional expenses. The SSBPA strongly objected both actions and the arguments for them.

5.2.9 Intangible assets

This category, included in 11 disciplinary cases, constitutes of failures concerning intangible assets such as patents and goodwill. The first failure concerning this category did not occur until 2001 (see Figure 5.11). During the last decade, failures concerning *Intangible assets* were vaguely consistent with the trend of the total number of withdrawals. The most frequent failure



regarding *Intangible assets* concerned insufficient audits of goodwill and the auditor's failure to notice incorrect classifications and incorrect depreciation. Furthermore, several auditors failed to consider the value and existence of the asset and whether impairment should occur or not. Additional failures regarding *Intangible assets* were insufficient audits of patents and licenses. According to the SAAA 3:3, intangible assets should be stated under a separate headline. Further, the SAAA 4:4 states that the economic life of an intangible

asset is no more than five years. If a longer depreciation period is applied, the reason should be specified in a note.

The authors believe intangible assets to be difficult to assess, and in particular goodwill. According to the empirical results, several disciplinary cases revealed the auditor to accept the client's wishes of omitting depreciation (e.g. D 20/05). The authors suggest that this indicates negligence of the auditor rather than lack of knowledge, as the regulation of intangible assets is straightforward in terms of depreciation being a requirement. As was the case with *Tangible assets*, the authors are surprised by the willingness of the auditors to obey the wishes of their clients.

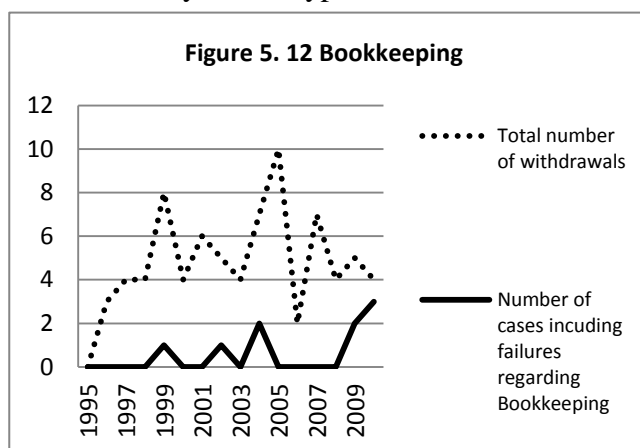
In D 9/05, the auditor had approved of incorrect classification and incorrect depreciation of intangible assets. According to the additional information found in the annual report, depreciation of patents occurred of 14 percent each year. Additionally, the patents were classified as tangible assets. The auditor had not considered the reason for the intangible assets to be classified as tangible assets and why the depreciation time was seven years. The only motive found regarding this incorrect classification was the wish of the client to reveal as little information as possible due to confidentiality. By accepting that the client had violated the SAAA, the SSBPA established that the auditor had failed to fulfill his obligations as an auditor.

In D 10/07, the auditor had accepted a value of goodwill of 2,340,000 SEK despite the fact that the client had informed the auditor that the asset was to be removed from the balance sheet. The SSBPA stated that, by confirming an incorrect value, the auditor had failed to fulfill his obligations.

5.2.10 Bookkeeping

This category, reported in 9 disciplinary cases, includes failures related to the bookkeeping of the company. Failures were reported in a number of disciplinary cases during 1999-2004 and the reporting again increased in recent years (see Figure 5.12). A frequent failure regarding this category consisted of companies incorrectly using the “cash method”. Accordingly to the SBA 5:2, cash payments must be recorded by the next business day. Other types of business events are to be recorded as soon as possible. Though,

according to the cash method, corporations may wait to record these entries until payments are made. Requirements for using this method is a small number of invoices included in the business. In addition, receivables and liabilities may not sum up to substantial amounts. By the end of the fiscal year, all unpaid receivables and liabilities must be recorded. In the disciplinary cases, the majority of the auditors paid attention to this error. However, if a correction is neglected by the management, the auditor is obliged to inform in the audit report of the client’s usage of an incorrect method of bookkeeping,



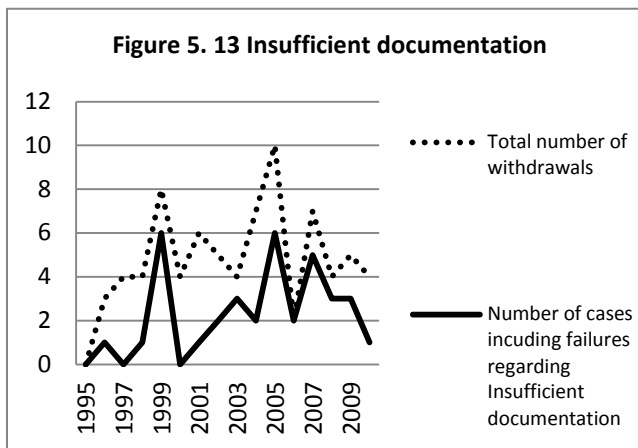
which causes incorrect accounting of taxes. Another common failure in this study was negligence of performing reconciliations throughout the year, which the auditor had not noticed.

The authors determine failures concerning *Bookkeeping* to possibly have an impact on for example tax payments and are therefore essential to audit (e.g. D 18/09). Furthermore, the authors suggest the auditors not to assess an incorrect usage of the “cash method” as a significant failure that requires attention in the audit report (e.g. D 18/09).

In D 38/09, the client had applied the “cash method” as bookkeeping method despite large numbers of invoices within the business as well as receivables and liabilities of significant value. The auditor had noticed the failure and had recommended the management of another bookkeeping method. Nevertheless, the SSBPA stated that the auditor had violated GAAS by not remarking of the failure in the audit report.

5.3 Insufficient documentation

Insufficient documentation was reported in 36 disciplinary cases. As shown in Figure 5.13, the frequency of failures concerning *Insufficient documentation* was widely spread over the research period. During four separate years, 75 percent or more of the disciplinary cases included failures regarding documentation. However, in 2010 the level of cases including failures of this category was the lowest since 2001. The majority of the disciplinary cases failing this category included a general insufficiency regarding documentation. Other failures concerned the documentation being established after the actual audit was completed as well as only documenting when deviations occurred or when reasons for remembrance existed. According to the SAA 24§, the documentation must be clear and complied in an orderly manner. The documentation should explain how the audit was planned and executed, how observations were made and what conclusions were drawn. Failure to fulfill the documentation requirements is considered serious as it complicates the analysis and the assessment of the audit work afterwards. The fact that an audit is not documented in accordance with regulation does not necessary mean that the



audit work is insufficient. However, in such cases the burden of proof transfers from the SSBPA to the auditor. This means that the auditor must provide sufficient evidence of his investigation in such a way that it appears likely that the alleged audit was performed with such focus and scope that it may serve as basis for conclusions.

The American studies differed in the results concerning *Insufficient documentation*. Brown & Calderon (1993) stated a percentage of 7 percent regarding *Failure to adequately document procedures performed or evidence obtained*. However, Campbell & Parker (1992) revealed that auditors failed regarding *Work paper preparation* in 25 percent of the releases. The authors establish that the results based on auditing in the United States were not consistent with the results of this study.

As there is a specific Audit Standard (AS 230) concerning documentation in addition to regular laws, the authors are surprised to find this category as one of the most frequently reported in this study. The authors suggest the empirical results to indicate that failures of this category occur due to time constraints and stressful working conditions. As it is not an actual part of the audit itself, the authors believe some auditors not to consider documentation as essential and therefore they choose to postpone it or even neglect it. Furthermore, the authors appoint that it might be unclear what sufficient documentation means and how it should be properly prepared (e.g. D 29/03). Finally, the authors also suggest that auditors failing this category seem to have forgotten the fact that they prepare the documentation for someone else rather than for themselves. Hence, the documentation becomes rather scarce and therefore it may be difficult for the SSBPA to evaluate the work of the auditor (e.g. D 17/05).

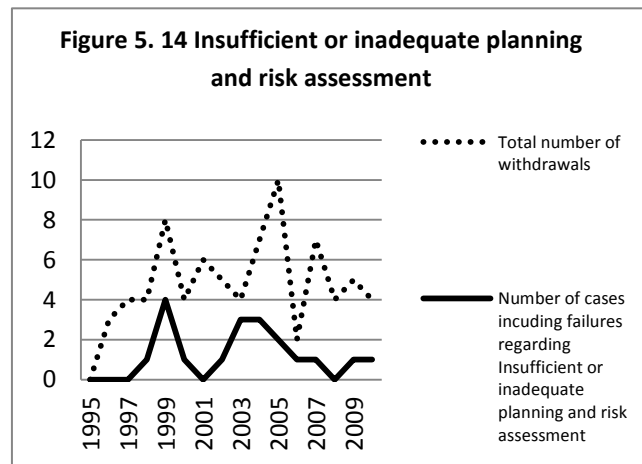
In D 10/06, the auditor stated that he had supplemented the documentation after a visit by a quality inspector, meaning that additional information had been added after the audit report was

submitted. By neglecting to document the audit work in a required manner, the auditor infringed GAAS.

In D 34/03, the auditor admitted to only document his work when reasons for remarks existed. The SSBPA stated the auditor to either lack knowledge of what was required of his documentation or he willfully violated the law.

5.4 Insufficient or inadequate planning and risk assessment

Insufficient or inadequate planning and risk assessment was included in 19 disciplinary cases. The frequency of failures concerning this category did not consist with the trend of the total number of withdrawals (see Table 5.14). Two major peaks were registered in 1999 and 2003-2005. During the other years of the research period, disciplinary cases including failures of this category were between 0-1. In nearly all cases failing this category, the SSBPA only briefly informed that the auditor failed concerning planning and risk assessment. The auditor usually admitted to the fact that no planning or risk assessment was accomplished, or he failed to prove that such actions had been performed. According to the Audit Standard 310 (AS 310), the auditor must have or acquire enough knowledge about the client to identify and understand the transactions and conditions which may have significant impacts on the annual report, bookkeeping and the administration of management or the audit process or audit report. Another common failure in this study included not contacting the previous auditor to gather useful information about the client.



The American studies included several categories each within the planning stage of the audit, which translates into this category of *Insufficient or inadequate planning and risk assessment*. Brown & Calderon (1993) claimed *Insufficient familiarity with client's business practice* to be included in 10 percent of the SEC releases. Furthermore, *Failures to adequately communicate with and review the work of prior auditors* occurred in 9 percent. The study by Campbell & Parker (1992) contained a general category of failure concerning *Engagement planning*, which occurred in 27 percent of all releases. Additionally, *Insufficient familiarity with client's business* was included in 10 percent. Finally, failures concerning the *Predecessor auditor* accounted for 8 percent of all releases. The frequency of failures concerning *Engagement planning* in the study by Campbell & Parker (1992) confirmed the results observed in this study, as both studies revealed similar percentages. In this study, however, this category represented all types of failures concerning planning and risk assessments, including failures concerning the *Predecessor auditor* and *Insufficient familiarity with client's business*. Therefore, a further comparison was not possible.

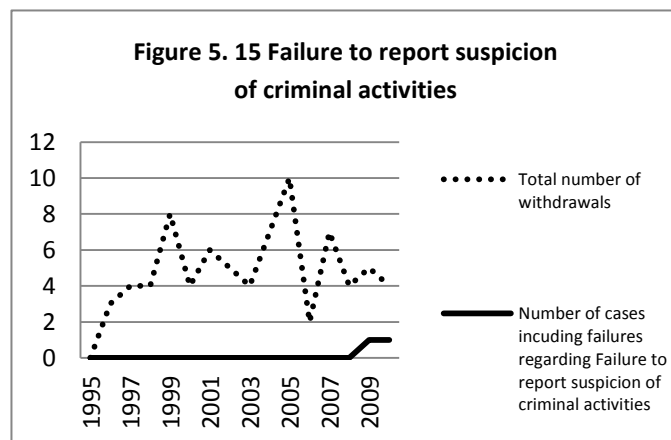
The authors appoint that the majority of the auditors failing this category claimed planning and risk assessment to be unnecessary as they are confident in their auditing due to long experience within the audit business (e.g. D 35/10). This corresponds to Fischer (1996), arguing that auditors most often rely on what was done last year. The authors further suggest that another common

claim is the one of persistent relationships with clients, which means that the required knowledge about the client and its business was acquired many years ago (e.g. D 13/10). Thus, some auditors therefore found repeatedly acquired knowledge and risk assessments to be a waste of time. Furthermore, the authors believe that auditors in the disciplinary cases seem to undervalue the importance of contact with the predecessor auditor (e.g. D 43/10).

In D 37/99, the auditor had not considered the risk assessment as important due to the good status and earnings of the client company. The SSBPA strongly objected this statement as risk assessment is important irrespectively status and earnings of a company.

5.5 Failure to report suspicion of criminal activities

Failure to report suspicion of criminal activities was reported in 2 disciplinary cases. As illustrated in Figure 5.15, failures of this category occurred only once in 2009 and 2010 respectively. According to the SCA 9:45, the auditor is required to undertake special measures if found suspicions about the board committing criminal activities. The auditor should firstly inform the board about the circumstances and thereafter resign from the assignment. In connection to the resignation, a notification of crime should be submitted to a prosecutor. Though, in three situations no resignation is necessary: If the economic damage of the suspected crime has already been compensated, if the suspected crime has already been notified to the police or the prosecutor, or if the suspected crime is of insignificant art.



Regarding the 2 failures of this category, the authors establish that the auditors were not aware of the fact that crimes had been committed. Hence, the authors suggest that this study indicates the auditors to be unaware of what actions that may be classified as crimes. Furthermore, Gough-Anderson (2002) claimed that auditors not yet consider detecting fraud as one of their assignments. According to the authors, this claim supports the results of this empirical study.

In D 31/09, the auditor had failed to inform the board about possible accounting fraud due to a late submitted annual report. According to the case NJA 2004 s. 61 settled by the Supreme court, an annual report submitted eight months late is considered as accounting fraud. The SSBPA therefore established that the auditor should have informed the board regarding the circumstances and later resigned as auditor.

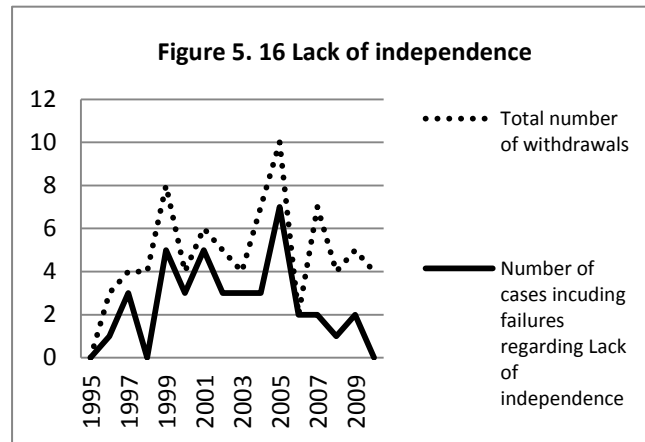
In D 35/10, the client firm had used bank receipts as verifications for deposits and withdrawals made by the owner. Further, the client had retroactively entered transactions into the accounts by using bank balances, resulting in transactions not being recorded. According to the SBA, bank statements may not be used as accounting verifications. Due to the fact that the bookkeeping contained serious shortcomings for many years, suspicions regarding accounting fraud indeed

existed. The SSBPA stated that the auditor should have informed the board regarding the circumstances and later resigned as auditor.

5.6 Lack of independence

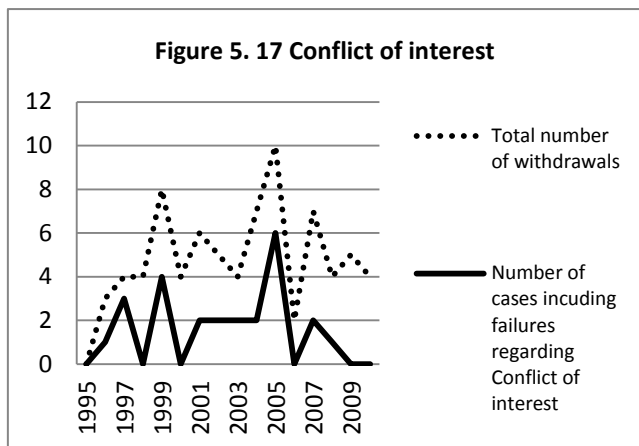
Lack of independence, included in 40 disciplinary cases, was the most frequently reported professional failure in this study. It is also the second category in this study to be divided into subordinate categories, as *Lack of independence* may derive from both *Conflict of interest* and *Challenge*. As stated in Figure 5.16, failures regarding *Lack of independence* constituted of a large percentage of the total number of withdrawals during the entire research period, with the exception of 1998 and 2007 onwards.

The studies by Brown & Calderon (1993) and Campbell & Parker (1992) revealed *Lack of independence* in 16 and 19 percent respectively of the SEC releases. However, Brown & Calderon (1993) stated that the audit profession and the SEC have strengthened the rules for independence in recent years, which may explain the low percentages. Nevertheless, the authors suggest *Lack of independence* to be less frequent in the United States than in Sweden.



5.6.1 Conflict of interest

Conflict of interest, reported in 25 disciplinary cases, was a common failure during the entire research period. However, a decline in recent years may be noticed (see Figure 5.17). The most common failure concerning *Conflicts of interest* constituted of the auditor auditing the accounting firm that manages the bookkeeping for the auditor's clients. This specific situation of conflict of interest occurred in more than half of the reported cases. According to the SAuA 21§, an auditor is obliged to decline or resign from an audit assignment if there is any relationship of such nature



that it may undermine the confidence in impartiality or independence of the auditor. Another typical failure within this category included the auditor auditing a company of which the owner or board member was elected auditor in the audit firm i.e. cross-auditing. This situation violates PCEA, as it conflicts with impartiality and independence of the auditor. Furthermore, several cases in this study included the failure of the auditor auditing a company of which the owner was a board member of the audit firm. This situation resembles of the first one and thus also

undermines the confidence in impartiality or independence of the auditor. Other failures within this category included the auditor lending the client money or borrowing money from the client, sharing an office with the accounting firm that manages the bookkeeping for the auditor's clients and being the elected auditor in a company which the auditor had significant corporation with.

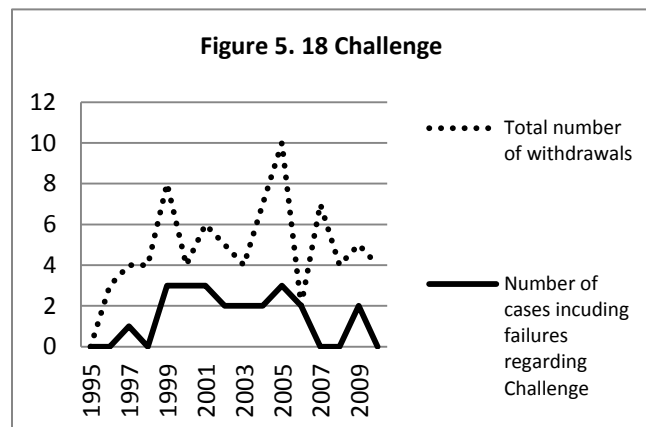
Many failures regarding *Conflicts of interest* were identical and repeatedly reported. The authors suggest that the decline in recent years regarding this category is due to increased knowledge of previous cases and verdicts. Furthermore, the empirical results indicate that this category concerns situations in which it may be difficult to judge whether a conflict of interest exists or not. As FAR (2009) claims, there is a difference between actual independence and visible independence. Hence, the authors believe that many auditors may see themselves as independent whereas the SSBPA is of a different opinion (e.g. D 21/05). Bazerman et al. (1997) argue that the fact that auditors are hired, paid and possibly fired by the companies that they audit rather than by the people they represent will always cause conflicts of interest.

In D 40/99, the auditor was elected auditor for the majority of the accounting firms that managed the bookkeeping for many of his clients. Additionally, the auditor neglected to charge fees for his work, as he wanted to give something back to the accounting firms since they had set him up with many clients. The SSBPA stated that a situation like this is a clear violation against PCEA. The fact that the auditor did not charge the clients for his work additionally damaged the credibility of his impartiality and independence.

In D 29/03, the auditor had audited a company of which the board member was elected auditor in the audit firm. Even though the auditor found himself being fully impartial, his conduct clearly contradicted PCEA. This was also stated by the SSBPA. The fact that the auditor resigned from the assignments after the examination of the SSBPA did not change this decision.

5.6.2 Challenge

Challenge was reported in 23 disciplinary cases. The number of disciplinary cases including this category was not consistent with the trend of the total number of withdrawals. As one can see in Figure 5.18, the number of disciplinary cases including *Challenge* was 2-3 during 1999-2006. However, *Challenge* was only reported in one of the last four years. The most frequent act of failure regarding *Challenge*, occurring in more than half of the cases, constituted of the auditor preparing the financial statements on his own or assisting his client. This situation is a clear example of self-reviewing and does not comply with PCEA, as the SCA 9:17 states that a person assisting a company in bookkeeping, funds management or in any way exercising control over the company cannot be elected auditor. The second most frequent failure also fell under this section, as it included the auditor performing the bookkeeping for his clients. Other types of frequent failures concerning *Challenge* in this study constituted of the auditor's family members performing the bookkeeping or preparing the financial statements. This failure also categorized under the previously mentioned section, as the same rules apply for both the auditor as well as his immediate family in ascending or descending order. Hence, if family members in any way assist a client with its bookkeeping or financial statements, the auditor will fail the challenge criteria. Furthermore, several cases included situations where the auditor's coworkers



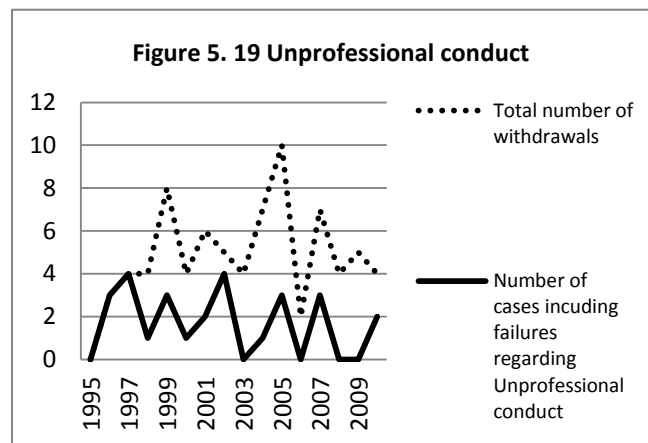
performed the bookkeeping or prepared the financial statements for clients, which later was audited by the auditor. Other cases constituted of the auditor hiring people, employed at an accounting firm performing the bookkeeping of the clients, as assistants at the audit firm. These situations also conflicted with the SCA section concerning challenge.

Based on the empirical result, the authors claim that many auditors are unaware of the fact that not only bookkeeping conflicts with challenge but also preparation of the annual report and the financial statements. Some auditors in this study seem to think that adjusting numbers in the statements or helping their clients in other ways regarding the closing procedures is allowed (e.g. D 37/99). The empirical results revealed that many identical failures of this category were repeatedly reported over the research period. The authors therefore believe that auditors will learn from these failures of the past and the number of disciplinary cases including *Challenge* will likely decrease in the future.

In D 36/99, the auditor’s wife had her own accounting firm, which performed the bookkeeping for the auditor’s clients. Additionally, the auditor’s son was employed by the audit firm and his duties included preparing the financial statements for the same clients. When accused of challenge by the SSBPA, the auditor claimed that assisting a client with the preparation of the financial statements is acceptable during a period of time when the client undertakes education in the field. However, the auditor had assisted his clients for more than four years, which was unacceptable according to the SSBPA. The supervisory board stated that the auditor had neglected his duties, as members of his family had assisted clients.

5.7 Unprofessional conduct

Unprofessional conduct was reported in 27 disciplinary cases. During the entire research period, the number of disciplinary cases including failures regarding *Unprofessional conduct* varied significantly and a trend was therefore not observed (see Figure 5.19). Neglecting to pay taxes and charges on time for the own audit firm was reported in 12 disciplinary cases. According to PCEA, an auditor must conduct his business in an orderly manner and work for sound economic



conditions. Another type of frequent failure was late submitted annual reports for the audit firm, thus violating the SCA rules on preparing the annual report on time. Also this situation infringed PCEA, as an auditor must comply with applicable rules and regulation as to gain confidence of both clients as well as the public. Furthermore, lack of knowledge regarding Swedish regulation was another common failure mentioned in the disciplinary cases. Other failures within this category consisted of the auditor emitting false certificates, approving capital

contributed in kind without any investigation, and engaging in prohibited loans. According to the SCA 21:1, a corporation must not grant a loan to someone owning stocks in the company or a board member or president of the corporation. This study also presented failures such as the auditor wrongly claiming to be authorized when only being approved, using information received through his work for the purpose of enriching himself, wrongly using the “cash method” in the

bookkeeping of his audit firm as well as not notifying the Swedish Companies Registration Office when an assignment ended early.

The authors claim that the category *Unprofessional conduct* included many failures which were deliberately caused by the auditor (e.g. D 1/07). The authors therefore establish that a part of the problem concerning this category lies within the ethics and moral of the auditor rather than the regulation. Many disciplinary cases failing this category also concerned the firm of the auditor (e.g. D 7/10). The authors claim that it is a serious matter when the auditor fails to run his business according to laws and regulations, as it is his job to follow these rules during the audits of clients. According to the authors, deliberate failures may undermine the confidence for the audit business, which is the likely reason why the SSBPA pays attention to these types of failures. Based on the empirical results, a common failure during the first years of the research period was negligence of paying taxes and charges on time (e.g. D 6/96). However, as this specific failure was last reported in 2005, the authors suggest that this indicates that auditors are now aware of the fact that this failure may cost them their approval or authorization. In recent years, a number of unique failures were instead detected (e.g. D 37/07).

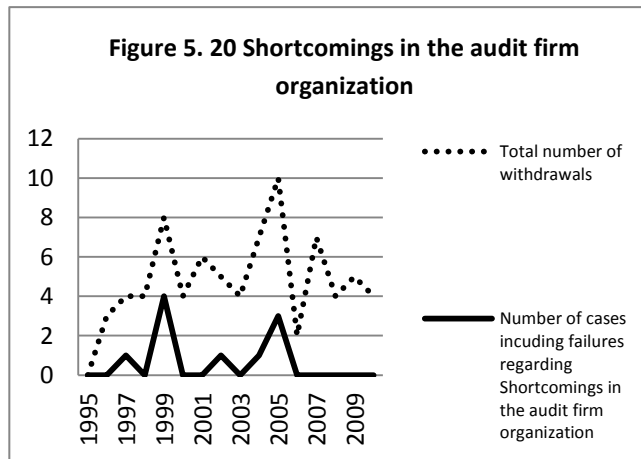
In D 53/00-01, the auditor had neglected to pay taxes and charges on time during 10 out of 15 months. Additionally, prohibited loans had repeatedly been an issue within the audit firm although the loans had been fully repaid by the end of the fiscal year. These concerns had led to the audit firm being subject of a disclaimer of opinion in the audit report. The SSBPA stated that the auditor severely had neglected PCEA within his own business.

In D 9/02, the auditor had performed tax deductions for private living expenses during several years. The auditor had also made deductions for purchases regarding equipment, which were nowhere to be found within the business premises. The SSBPA stated that being a qualified auditor, he had to have realized his conduct was unprofessional and contradictive to PCEA. Furthermore, the auditor had lent money to a company fully owned by his brother-in-law, as he "wanted to offer his help". The auditor had valued this receivable to its fully nominal amount even though the company of his brother-in-law had filed for bankruptcy and it was clear that the receivable was useless. Hence, the auditor had submitted an annual report with strongly misleading statements. The SSBPA clarified that the auditor, being the only owner and board member of his audit firm, was solely responsible for the violation of the SCA section on prohibited loans. Also, by misleading the information in the financial statements, the SSBPA stated that the auditor had acted against PCEA.

5.8 Shortcomings in the audit firm organization

Shortcomings in the audit firm organization was included in 10 disciplinary cases. As shown in Figure 5.20, failures concerning this category were more frequent during the first 10 years of the research period than in the recent 5 years. Failures regarding *Shortcomings in the audit firm organization* are therefore not consistent with the trend regarding the total number of withdrawals. The most common failure caused by the auditor in this category was unsatisfactory storing and managing of documentation. According to the rules issued by the SSBPA, RNFS 2001:2 5§, the auditor must store his documentation for at least 10 years. It should be kept in an orderly and safe manner and may not be accessible to unauthorized people. Another failure occurring in several cases in this study consisted of the auditor being engaged in prohibited secondary activities. The SAuA 25§ clearly states that an auditor may not engage in other

activities but auditing or activities that have a natural connection to auditing, as these activities may undermine confidence in the impartiality or independence of the auditor. Other failures of this category included passivity of the auditor in terms of contacting clients in order to request



material and information necessary for the audit on time as well as the auditor hiring unqualified co-auditors. Finally, several cases included family members being owners or board members of the auditor's firm. According to the SAuA 11§, an auditor may exercise audit activities in a corporation only if the corporation is owned by qualified auditors and the board of the company is represented by qualified auditors.

This category is similar to *Failure to follow auditing firm policy*, applied in the study by Brown & Calderon (1993), which

accounted for 5 percent of the SEC releases. Hence, the authors establish that failures regarding *Shortcomings in the audit firm organization* are neither frequently reported in the United States nor Sweden.

Rules regarding storage of documentation are clearly stated in the regulation by the SSBPA. The authors therefore believe failures concerning storage of documentation to occur due to negligence or ignorance of this regulation (e.g. D 16/04). Furthermore, the authors suggest the empirical results to indicate lack of knowledge regarding specific rules concerning audit firms, as prohibited secondary activities as well as electing family members as owners or board members of the auditor's firm occur (e.g. D 21/05). As for the decline of failures in recent years, the authors believe that awareness of these rules may have increased over the years, thus this area within auditing is not one of the most critical areas as of today.

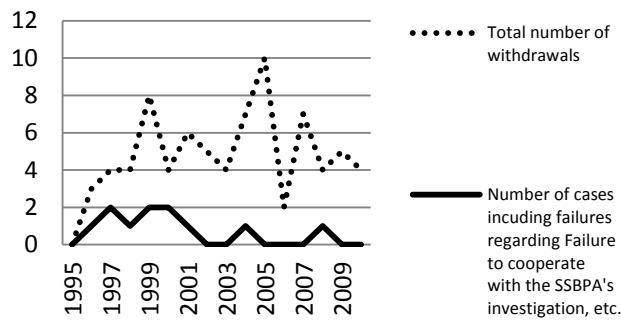
In D 45/99, the auditor shared premises with an accounting firm, resulting in accessibility of audit documentation for the accounting firm. The SSBPA stated that the auditor therefore had violated regulation regarding documentation.

5.9 Failure to cooperate with the SSBPA's investigation etc.

Failure to cooperate with the SSBPA's investigation etc. was included in 11 disciplinary cases. As reported in Chapter three, a legal expert within the SSBPA stated that there is hidden statistics regarding this category as not all disciplinary cases including these types of failures are published on the SSBPA website. Therefore, the reader should keep in mind that these types of failures most likely occur more frequently than this study reveals.

As illustrated in Figure 5.21, the majority of the failures occurred during 1995-2000 while the frequency was rather low in recent years. In 7 cases, the auditor completely neglected to cooperate with the SSBPA, which solely led to withdrawal of approval or authorization. According to the SAuA 28§, the auditor is required to provide the SSBPA with any information or documents that are necessary for the investigation. As a result of the auditor's refusal to cooperate and provide documents, the SSBPA is unable to thoroughly examine the work of the

Figure 5. 21 Failure to cooperate with the SSBPA's investigation etc.



auditor. Hence, the majority of the disciplinary cases including failures of this category consisted exclusively of this one type of failure.

This specific type of failure is clearly stated in the Swedish regulation, which prevents any interpretations regarding the content of the matter. Therefore, the authors assume auditors causing this failure to be either unaware of the requirement of collaboration or knowingly choosing to disobey this rule as they are aware of failures in their audit work.

In D 17/99, the auditor had repeatedly been asked to provide documents for the SSBPA's investigation. However, the auditor had neglected to cooperate despite being disciplined with a warning. The SSBPA therefore considered the circumstances to be aggravating and sanctioned the auditor with withdrawal of license

5.10 The critical failure

The disciplinary cases in this study included several different combinations of main categories (see Appendix 3). This study revealed 1 disciplinary case to include failures related to as many as 6 different main categories, informing that the auditor had failed in a wide range of areas within his audit as well as in his professional conduct. Furthermore, 18 disciplinary cases included failures related to only 1 main category. However, 59 cases included failures related to 2 or more categories. The average number of main categories relating to failures in each disciplinary case was nearly 3. These statistics clearly shows that an auditor who gets his license withdrawn usually fails in several areas of auditing. This result corresponds to Carrington (2007) who suggests that in order to be given a sanction, the auditor in general has committed several wrongdoings.

When analyzing the disciplinary cases included in this study, the authors noticed that the SSBPA refrains from statements regarding what failures within a disciplinary case which are crucial factors in the rulings. The degree of severity reported by the SSBPA simply ranges from "the auditor has failed to fulfill his obligations as an auditor" to "the auditor has *seriously* failed to fulfill his obligations as an auditor". No further information or explanations are provided. For this reason, the authors chose to carefully study the disciplinary cases including failures connected to a maximum of 1 or 2 main categories to answer the question of what failures which lead to the SSBPA withdrawing the license of the auditor.

Regarding the 18 disciplinary cases including failures related to 1 main category solely, no more than 5 cases were connected to process failures whereas 13 cases included professional failures solely. The authors therefore suggest professional failures to be judged with more severity than process failures. This result complies with Carrington (2010), who claims professional failures to be judged more severely than technical mistakes in the audit process.

Only 3 main categories were represented in the disciplinary cases including failures related to 1 main category solely. *Failure to cooperate with the SSBPA's investigation etc.* was the only cause for withdrawal of license in eight disciplinary cases. The categories *Unprofessional conduct* and *Error of judgment or execution when performing the audit* were represented in 5

cases each. As for the latter category, several failures concerning the associated subordinate categories were stated. Therefore, establishing what subordinate category that solely leads to withdrawal of license was not possible, as several combinations of different subordinate categories were reported in these cases.

As the 3 main categories mentioned above represented the single causes to the SSBPA withdrawing the license of the auditor, the authors establish that all these types of failures *may* lead to withdrawal of approval or authorization. However, the real challenge is that of determining whether these 3 types of failures are solely likely to lead to withdrawal.

The total number of disciplinary cases including *Failure to cooperate with the SSBPA's investigation etc.* was 11. Out of these 11 cases, as many as 8 solely led to withdrawal of license. Thus, 73 percent of the disciplinary cases including this main category solely resulted in withdrawal. Therefore, the authors strongly suggest that *Failure to cooperate with the SSBPA's investigation etc.* is a type of failure that is solely likely to lead to withdrawal of license. This statement was also confirmed by a legal expert at the SSBPA, presented in Chapter three.

Moving on to *Unprofessional conduct*, the total number of disciplinary cases including this type of failure was 27. Out of these 27 cases, 5 solely led to withdrawal of license. Thus, 19 percent of the disciplinary cases including this main category solely resulted in withdrawal. As this number corresponds to a frequency of one-fifth, the authors claim these results to be enough to assess failures of this main category to be crucial factors in the SSBPA rulings.

Finally, the total number of disciplinary cases including *Error of judgment or execution when performing the audit* was 62. Out of these 62 cases, 5 solely led to withdrawal of approval or authorization. Hence, a merely 8 percent of the disciplinary cases including this main category solely resulted in withdrawal. Additionally, when studying Appendix 3, one may notice that this type of failure is divided into two "groups". *Error of judgment or execution when performing the audit* is represented in nearly all disciplinary cases in the top of the table, while it is scarcely represented in the cases in bottom of the table. According to the authors, these results indicate that although this type of failure solely may lead to withdrawal of license, the authors are reluctant to appointing this failure as one that is expected to solely lead to withdrawal of license automatically.

When studying the 12 disciplinary cases including failures related to 2 main categories, as many as 5 main categories were represented. As several different combinations of main categories were found in this examination, the authors establish that determining which failures to consider as critical when deciding on withdrawal of license cannot be made if a disciplinary case includes failures related to more than 1 category.

The authors want to point out that the information presented above do not exclude the possibly of other main categories being equally crucial in the SSBPA rulings as the 3 main categories *Error of judgment or execution when performing the audit*, *Unprofessional conduct*, and *Failure to cooperate with the SSBPA's investigation etc.* However, the fact that the considerable majority of the disciplinary cases in this study included several different combinations of main categories as well as the fact that the SSBPA chooses not to rank the stated failures according to severity, prevent the authors from further establishments.

5.11 Limitations of the study

During the conduct of this study, several observations concerning the structure of the disciplinary cases as well as the rulings of the SSBPA occurred. When the SSBPA initially started its investigations, the assessments in the disciplinary cases were somewhat general and brief. Several assessments of the cases during 1996-1999 only stated the audit to be inadequately

performed, without further information regarding failures and critical areas. The average number of pages included in each disciplinary case during these years was 4. When studying the disciplinary cases from recent years, the assessments throughout the cases were thorough and detailed in terms of failures and critical areas. The average number of pages included in each disciplinary case during 2005-2010 was 9. This increase in number of pages indicates that the SSBPA in recent years have put more emphasis in their assessments and chose to thoroughly describe failures in each case. Hence, as the information provided by the SSBPA in the disciplinary cases vary over the 15 years included in the study, this inconsistency within the SSBPA may have affected the results of the empirics and analysis.

Another inconsistency in the work of the SSBPA is stated in D 9/05. In the general assessment concerning *Lack of independence*, the board stated *Challenge* as the auditor's son assisted the client in its bookkeeping. However, in the summary assessment of the same disciplinary case, the SSBPA reported *Conflict of interest* as the ground of judgment. The authors chose to categorize the specific failure in the correct category *Challenge*. Although the authors only found this one deficiency, the reader should be aware of the fact that other similar deficiencies may exist in the data collection.

Some general results of this study could be compared to the results of the study by Carrington (2007). However, although this study was based upon the dissertation by Carrington (2007), a complete comparison between the two studies could not be performed due to different numbers of disciplinary cases included in the studies. This study included cases resulting in a final verdict of withdrawal of approval and authorization whereas Carrington (2007) chose to include all cases settled by the SSBPA resulting in withdrawal regardless of changed outcomes in the higher courts. This difference in research approach resulted in seven fewer cases in this study compared to the study by Carrington (2007) in terms of disciplinary cases during 1995-2003. However, the same ranking of frequent failures within the disciplinary cases resulting in withdrawal was distinguished except for *Insufficient documentation*, which received a lower ranking in this study. Categorization concerning *Insufficient documentation* was complex due to terse information by the SSBPA in the disciplinary cases and difficulty to assess whether the auditor had failed regarding inadequate documentation or the audit itself. Nevertheless, categorization by the authors was consistent throughout this study although not completely consistent with Carrington (2007).

When comparing the results of this study to the American studies conducted by Campbell & Parker (1992) and Brown & Calderon (1993), the reader must keep in mind that regulations as well as sanctions differ between the United States and Sweden. A withdrawal in Sweden is permanent whereas there are three different types of sanctions in the United States consisting of permanently barring the defendant from practice before the SEC, temporarily barring the defendant from practice before the SEC, and public censure (Brown & Calderon 1993). Although the three types of sanctions applied in the United States are all withdrawals of licenses, only one of these is equivalent to the Swedish withdrawal of approval or authorization. Hence, this fact prevented the authors from making an exact comparison between this study and the American studies by Campbell & Parker (1992) and Brown & Calderon (1993). Nevertheless, the authors assessed drawing parallels between these studies to be relevant and informative.

Chapter 6: Results

In this last chapter the conclusions of the empirics and analysis will be presented to answer the research questions of the study. A discussion of these conclusions will follow as well as suggestions for future research.

6.1 Conclusions

The conclusions of this study will be presented according to each research question as well as the composition of the empirics and analysis chapter. Therefore, in connection to each research question, the authors will present the conclusions drawn regarding process and professional failures, followed by the conclusions concerning the main and subordinate categories.

- What failures within auditing are most frequently reported by the Swedish Supervisory Board of Public Accountants in the disciplinary cases resulting in withdrawal of approval or authorization during 1995-2010?

During 1995-2010, the authors found 77 disciplinary cases resulting in the SSBPA withdrawing the license of the auditor. However, the number of failures included in these cases was significantly higher. Each disciplinary case included failures related to between 1 and 6 of the main categories presented in this study. Thus, the range of number of categories referred to in each disciplinary case was relatively wide.

Based on all of the 77 disciplinary cases in this study, the authors conclude process and professional failures to be reported with exactly the same frequency. Thus, the authors cannot establish one type of failure to be more frequent than the other. However, the proportion of process failures has increased in recent years whereas professional failures have decreased. A considerable majority of the disciplinary cases included a combination of both types of failures, stating that failures occurred both in the audit process as well as in the professional conduct of the audit.

Moving on to the main categories, the authors conclude that *Error of judgment or execution when performing the audit* was by far the most common type of failure in this study. The frequency of this category was persistently high during all of the research years. Within this main category, the subordinate category *Inventory* was the most frequently reported, followed by failures concerning the *Annual report, Taxes & Charges* and *Cash & Bank deposits*. All of these subordinate categories were mentioned more frequently than half of the main categories.

Returning to the main categories, *Error of judgment or execution when performing the audit* was followed by *Lack of independence* and *Insufficient documentation*. Within the main category *Lack of independence*, situations concerning *Conflict of interest* were slightly more frequent than situations concerning *Challenge*. Regarding *Insufficient documentation*, a general insufficiency was by far the most frequently stated failure.

- What types of failures within auditing lead to withdrawal of approval or authorization by the Swedish Supervisory Board of Public Accountants?

Due to the following two reasons, the authors found it difficult to conclude whether the SSBPA judges different types of failures based on different degrees of severity. Firstly, this study concluded that the average number of main categories reported in each disciplinary case was nearly 3. Thus, the majority of auditors who gets their license withdrawn fails in diversified areas

within auditing. Secondly, the SSBPA refrains from statements regarding which failures within a disciplinary case that were crucial factors in the rulings and chooses not to rank the stated failures according to severity. Thus, the authors are unable to draw any final conclusions regarding this matter.

However, based on the compilation of disciplinary cases in this study, the authors may under certain circumstances establish what types of failures that lead to withdrawal of the license of the auditor. Firstly, by studying the disciplinary cases including failures related to 1 main category solely, the authors suggest the SSBPA to judge professional failures more severely than process failures. Furthermore, the main category *Failure to cooperate with the SSBPA's investigation etc.* was the only main category within this study that the authors strongly suggest solely leads to withdrawal of license. Also failures regarding *Unprofessional conduct* solely led to withdrawal of license, making this category one of the most critical within this study. Finally, failures regarding *Error of judgment or execution when performing the audit* also led to withdrawal of license solely. Although concluding that *Error of judgment or execution when performing the audit* may lead to withdrawal of license, the authors are reluctant to appoint this type of failure as one that solely is expected to lead to withdrawal. A considerable majority of disciplinary cases including *Error of judgment or execution when performing the audit* also included failures related to other main categories, preventing the authors from determining the actual critical failure.

Returning to the main topic of this study, answering the question *What areas within auditing are critical for the auditor when performing the audit*, the authors conclude the following. Failures regarding *Error of judgment or execution when performing the audit* was by far the most frequently reported main category in this study, making it critical in the sense that errors often occur within the area. It was also the single cause of withdrawal of licenses in several disciplinary cases. However, the fact that a failure is reported frequently does not mean that it is the most likely cause of withdrawal. Examples are those of *Failure to cooperate with the SSBPA's investigation etc.* and *Unprofessional conduct*, which were not as frequently reported in this study. However, these are reasonably the types of failures that repeatedly and solely lead to withdrawal of license, thus making them critical. Hence, the two subordinate research questions of this study provided different answers to the main topic.

6.2 Discussion

Previous research shows an interest in audit quality and determining what a sufficient audit is. This master thesis contributes to this ongoing discussion, providing concrete facts and detailed information of critical failures previously unexplored. These results may partly answer the question of what the SSBPA, and possibly other supervisory authorities within auditing, concludes as an insufficient audit.

The authors would like to emphasize the relatively low number of auditors disciplined with withdrawals, as only 77 withdrawals of authorization or approval occurred during 1995-2010. This should be seen in relation to the fact that 4,000 authorized and approved auditors are active in Sweden each year. Additionally, the number of audit assignments performed in Sweden each year is significantly higher. As the SSBPA is unable to continually supervise each and every auditor, undetected failures caused by auditors are inevitable. However, the authors question whether the low proportion of withdrawals reflects the total number of severe failures caused by auditors. Are all Swedish auditors really that professional and flawless to be avoiding withdrawals of license year after year? Or does the problem lie within the SSBPA and its supervision? The authors doubt the supervision of auditors in Sweden to be working effectively.

As the content of the disciplinary cases were not able to provide a sufficient answer to the question of what failures within auditing that lead to withdrawal, the authors contacted the SSBPA for further information. Conversations with the SSBPA office revealed no specific scheme to be used when the board makes its final decision regarding withdrawals. Each disciplinary case is judged individually based on the SAA 32§, stating that the license of the auditor may be withdrawn if he deliberately does wrong in his profession. As there is no specific scheme, the authors suggest the SSBPA rulings to be based on subjectivity and may change from case to case. Therefore, based on this possible inconsistency in the rulings, the authors believe that it may be difficult for auditors to understand what is required in order to avoid a withdrawal of license.

Due to the completion of this study, the authors confirm auditing to remain complex as boundaries between a sufficient and insufficient audit are undefined. According to the authors, this study shows that many disciplinary cases include the SSBPA stating what failures have been caused but often lack information of what actions instead are appropriate and desirable. Nevertheless, the authors noticed the disciplinary cases being more extensive in recent years than previously, both regarding the number of pages of each case as well as detailed descriptions of each failure. The authors therefore appoint that the SSBPA has gone from simply formulating verdicts to detailed descriptions. This may indicate that the SSBPA has realized the importance of its practice setting to be clear and understandable for auditors. However, the authors suggest further improvements concerning the SSBPA stating what actions are appropriate and desirable in order to avoid failures.

The results of this study reveal that many types of audit failures have been repeated over the years, indicating that auditors neglect to inform themselves of the information given in the disciplinary cases. Hence, the authors believe that the SSBPA has not yet completely been able to reach the desired results of its supervision and practice setting. Due to this master thesis' revelation of repeatedly caused failures, the authors suggest that auditors should, in greater extent, consider the disciplinary cases as sources of education in the future.

According to the authors, a surprisingly large share of disciplinary cases included in this study contained failures within areas considered well documented and regulated. Hence, several withdrawals seem preventable as the auditors should be aware of the existing regulation. The authors allege great responsibility to lie with the auditor himself to possess the knowledge required within the audit profession. The authors therefore again appoint the empiric results to indicate that auditors fail to educate themselves.

The authors suggest that the results of this master thesis may contribute to an increased awareness of what areas within auditing that are critical for the auditor when performing an audit. Hence, auditors may learn from other auditors' failures and discover how the SSBPA has chosen to judge these. As auditors now are given the chance to possess the knowledge of these critical areas within auditing, a desirable contribution of this study would be a decrease of withdrawals based on the failures presented above.

6.3 Future studies

During the conduct of this study, the authors found two interesting approaches concerning supervision of auditing. The authors were enlightened of the fact that no specific scheme is used when the SSBPA makes its final decision regarding withdrawals. Therefore, an interesting point of view would be to thoroughly compare disciplinary cases resulting in withdrawals with cases resulting in warnings, to be able to determine the difference in content between these two sanctions. Furthermore, when comparing the results of this study with the results of similar

researches conducted in the United States, the authors found the Americans more focused on process failures rather than professional failures. A comparison between the sanctions issued by the SSBPA and sanctions issued by similar supervisory authorities abroad as well as what grounds these sanctions are issued on, would provide further information regarding supervision and auditing on an international level.

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Appendices

Appendix 1 – Document of categorization

Disciplinary case	Verdict	Approved/ Authorized	Initiator	Process:				Professional:			
				Error of judgement or execution when performing the audit	Insufficient documentation	Insufficient or inadequate planning and risk assessment	Failure to report suspicion of criminal activities	Lack of independence	Un-professional conduct	Short-comings in the audit firm organization	Failure to cooperate with the SSBPA's investigation
Dnr 828-94	D 6/96	Approved	STA						The auditor neglected to pay taxes & charges in his business		

Appendix 2 – Example of a disciplinary case

Dnr 2000-668

2000-09-21

D 6/00-01

D 6/00-01

Genom systematisk och uppsökande tillsyn (SUT) informerar sig Revisorsnämnden (RN) om kvaliteten i revisorers och revisionsbolags verksamhet. Som ett led i SUT har RN undersökt förutsättningarna för vissa av de revisorer som inte är medlemmar i någon av revisorsorganisationerna Föreningen Auktoriserade Revisorer FAR och Svenska Revisorsamfundet SRS att genomföra revisioner av godtagbar kvalitet. A-son ingår i denna grupp och har skriftligen fått besvara ett antal frågor. För att få underlag för en kvalitetsbedömning av A-sons revisionsarbete har RN även tagit del av hans revisionsdokumentation över senast utförd revision i tre aktiebolag, produktionsbolaget, restaurangbolaget och verkstadsbolaget. Med hänsyn till vad som framkommit har RN beslutat att överföra SUT-ärendet till ett disciplinärende. De överväganden som legat till grund för detta beslut har sammanfattats i en promemoria över vilken A-son har yttrat sig.

A-sons oberoende som revisor

A-son har 123 aktiva revisionsuppdrag. Han utövar sin revisionsverksamhet i en enskild firma, Revisionsbyrån A-son (revisionsbyrån). Verksam i revisionsbyrån är endast A-son. Han har uppgett att han i några fall anlitar "redovisningsbyrå för enklare siffergranskningsarbeten. I dessa fall sköter ej redovisningsbyrån den löpande bokföringen i det bolag som granskas." A-son har senare förtydligat att de tjänster som han köper av redovisningsbyråerna främst avser verifikationsgranskning samt bekräftat att det är samma personer som upprättar bokslut åt bolagen som A-son använder som revisionsmedarbetare i respektive bolag.

RN gör följande bedömning.

Enligt 10 kap. 17 § aktiebolagslagen (ABL) får en revisor inte som biträde vid revisionen anlita en person som biträder vid ett bolags bokföring. Häri ingår även upprättande av bokslut. A-son har i vissa revisionsuppdrag organiserat sitt arbete så att han bryter mot denna grundläggande jävsbestämmelse i aktiebolagslagen. A-sons argument att dessa medarbetare inte utför grundbokföring åt hans revisionsklienter förändrar inte denna bedömning.

A-sons revisionsarbete – generella iakttagelser

A-son utför ingen riskanalys eller planering i sina revisionsuppdrag. På RN:s fråga om hur han genomför sin revision har han hänvisat till en blankett benämnd siffergranskningsrapport samt ett dokument benämnt revisionsförfrågan. På siffergranskningsrapporten finns ett antal granskningsåtgärder förtryckta bl.a. granska intern kontroll, pricka UB-IB, granska verifikationer samt granska årsredovisning inklusive bilagor. Dokumentet revisionsförfrågan innehåller klienternas egna svar på vissa frågor som A-son ställt till dem, exempelvis om samtliga kundfordringar är säkra, om alla ersättningar och förmåner redovisats på arbetsgivar- och kontrolluppgifter och om en moms-skuld är betald. De tre revisionsklienter – för vilka RN har tagit del av A-sons revisionsdokumentation – har i samtliga fall besvarat frågorna med Ja. I dokumentationen finns ingenting som verifierar att A-son skulle ha kontrollerat något av svaren. Av A-sons dokumentation kan heller inte utläsas att han skulle ha gjort någon granskning av bolagens balans- och resultatposter, inte ens av de största posterna. Posten maskiner och inventarier var i samtliga tre bolag en betydande balanspost. Bokfört värde var i produktionsbolaget 2,7 mkr, i restaurangbolaget 0,8 mkr och i verkstadsbolaget 0,7 mkr (54%, 29% och 74% av respektive bolags balansomslutning).

A-son har, efter att ha tagit del av RN:s promemoria i SUT-ärendet, uppgett följande. "Enligt min siffergranskningsrapport granskar jag bl.a. 'årsredovisning jämte bilagor' dvs. specifikationer till alla balansposter och vissa resultatposter. Dessa jämför jag med föregående års och granskar och analyserar de förändringar som jag anser vara väsentliga." "Eventuella synpunkter meddelar jag styrelsen i form av en revisionsförfrågan, som uppföljes men även – jämte 'siffergranskningsrapporten' – ligger till grund för kommande års revisioner." Vad gäller posten maskiner och inventarier i respektive bolag säger sig A-son ha granskat förteckningar över dessa tillgångsposter och uppger att han delgetts dokument som styrkt fysisk kontroll. Han har aldrig deltagit i någon inventering.

RN gör följande bedömning.

Enligt god revisionssed skall revisorn planera sin revision. Principerna om väsentlighet och risk skall vara vägledande. Genom att underlåta att utföra detta grundläggande moment i revisionsprocessen och i stället som underlag för sin revision använda en blankett med samma granskningspunkter oavsett klient har A-son åsidosatt god revisionssed. Att granska årsredovisningen enbart genom att utifrån specifikationer till resultat- och balansposter följa upp förändringar är otillräckligt. I dokumentationen finns för övrigt inget som styrker att han skulle ha utfört ens dessa mycket begränsade revisionsinsatser. Handlingar som visar att respektive bolag skulle ha styrkt fysisk kontroll av posten maskiner och inventarier återfinns inte i revisionsdokumentationen. Mot bakgrund av att denna post – i samtliga tre bolag – utgjorde en betydande del av balansomslutningen är det särskilt anmärkningsvärt att A-son inte någon gång deltagit i fysisk kontroll av tillgångarnas existens. På vilket sätt A-son skulle ha följt upp svaren på sin revisionsförfrågan har han inte redogjort för.

Sammanfattningsvis har A-sons granskningsåtgärder till huvudsaklig del skett genom att han – även beträffande poster som varit väsentliga för respektive bolags resultat och ställning – ställt frågor till företagsledaren i respektive bolag och därefter okritiskt godtagit av företagsledaren lämnade uppgifter. A-son har inte beträffande något av de tre bolagen verifierat, vare sig genom dokumentation eller på annat sätt, att han skulle ha utfört någon revision värd namnet beträffande någon post eller några rutiner.

Särskilda iakttagelser

Produktionsbolaget (räkenskapsåret 1998)

Bolagets omsättning uppgick under det aktuella året till 12 mkr. Balansomslutningen uppgick till 5 mkr. Bolaget, vars verksamhet var textsättning av spelfilm, hade en ägare.

A-son har i dokumentet revisionsförfrågan ställt bl.a. frågan om bolagets kundfordringar (ca 1,1 mkr, 22 % av balansomslutningen) var "säkra". Bolaget har svarat Ja. En annan fråga gällde om posten Övriga fordringar (ca 265 000 kr) avsåg förbjudet lån till ägaren. Denne har svarat att posten skulle "regleras bort".

A-son har – på RN:s fråga varför han bett klienten svara på frågan om kundfordringarna var säkra – anfört att klienten känner till "om fordringarna är reglerade vid revisionstillfället". Vad gäller det eventuella lånet till ägaren har A-son uppgett att han noterat att en extra bolagsstämma i januari 1999 hade fattat beslut om utdelning till ägaren med ett belopp som översteg den fordran på ägaren som bolaget hade vid bokslutstillfället. A-son ansåg därför att denna fordran utgjorde "förskottsbetald utdelning" och inte något förbjudet lån.

RN gör följande bedömning.

Den motivering som A-son anfört som skäl för att fråga klienten om kundfordringarnas existens och värde visar att han inte förstått sin uppgift som revisor. Det svar han rimligen kunde förvänta sig är att klienten anser att de poster är korrekta som tagits upp i den årsredovisning som förelagts revisorn för revision.

Vad gäller ägarens lån från bolaget är A-sons bedömning att det var fråga om "förskottsbetald utdelning" anmärkningsvärd. Enligt 9 kap. 7 § ABL skall utdelning beslutas av bolagsstämma. Att en bolagsstämma – efter ägarens uttag av medel ur bolaget – fattar beslut om utdelning till denne förtar givetvis inte "förskottsbetalningens" karaktär av ett förbjudet lån. Eftersom ägaren till produktionsbolaget sålunda överträtt reglerna i 12 kap. 7 § ABL om förbud mot penninglån skulle A-son i sin revisionsberättelse ha anmärkt på detta.

Restaurangbolaget (räkenskapsåret 1998)

Bolaget hade det aktuella räkenskapsåret en omsättning om 12,4 mkr. Balansomslutningen uppgick till 2,8 mkr.

RN gör följande bedömning.

Vad gäller restaurangbolaget framkommer tydligt de allvarliga brister i revisionen som det innebär att använda blanketter med standardiserade frågor som inte anpassats till respektive bolags verksamhet och förutsättningar. I ett restaurangbolag är det viktigt att ingående bedöma rutinerna för hantering av kontanter och kontokort. Vidare är deltagande i inventering av råvarulager angeläget eftersom lagret ofta är en väsentlig tillgångspost i ett restaurangbolag. I restaurangbolaget hade omsättningen sjunkit samtidigt som råvarukostnaderna hade ökat. Detta borde ha föranlett A-son att närmare analysera resultaträkningen för att förvissa sig om att intäktsredovisningen var fullständig. Slutligen är granskning av lönerutiner och ett restaurangbolags hantering av olika momssatser ett område som borde ha hög prioritet utifrån en bedömning av väsentlighet och risk. Såvitt framkommit har A-son inte utfört någon av dessa grundläggande granskningsinsatser.

Sammanfattningsvis konstaterar RN att A-son i sin revision av restaurangbolaget helt har förbigått de speciella revisionsrisker som är förknippade med restaurangverksamhet. Han har inte granskat någon av de rutiner och poster som måste anses som särskilt väsentliga och riskfyllda i ett bolag i denna bransch. Hans revision av restaurangbolaget har varit undermålig.

RN:s sammanfattande bedömning

Genom sitt sätt att organisera sitt revisionsarbete har A-son överträtt ABL:s jävsbestämmelser.

En revisor skall enligt god revisionssed planera sin revision och utföra den omsorgsfullt. RN:s granskning av A-sons revisionsarbete visar på mycket allvarliga brister vad avser såväl planering som genomförande. Med hänsyn till att A-son i hög grad och i ett flertal avseenden allvarligt åsidosatt sina skyldigheter som revisor finner RN omständigheterna vara synnerligen försvårande. A-sons godkännande som revisor skall därför upphävas.

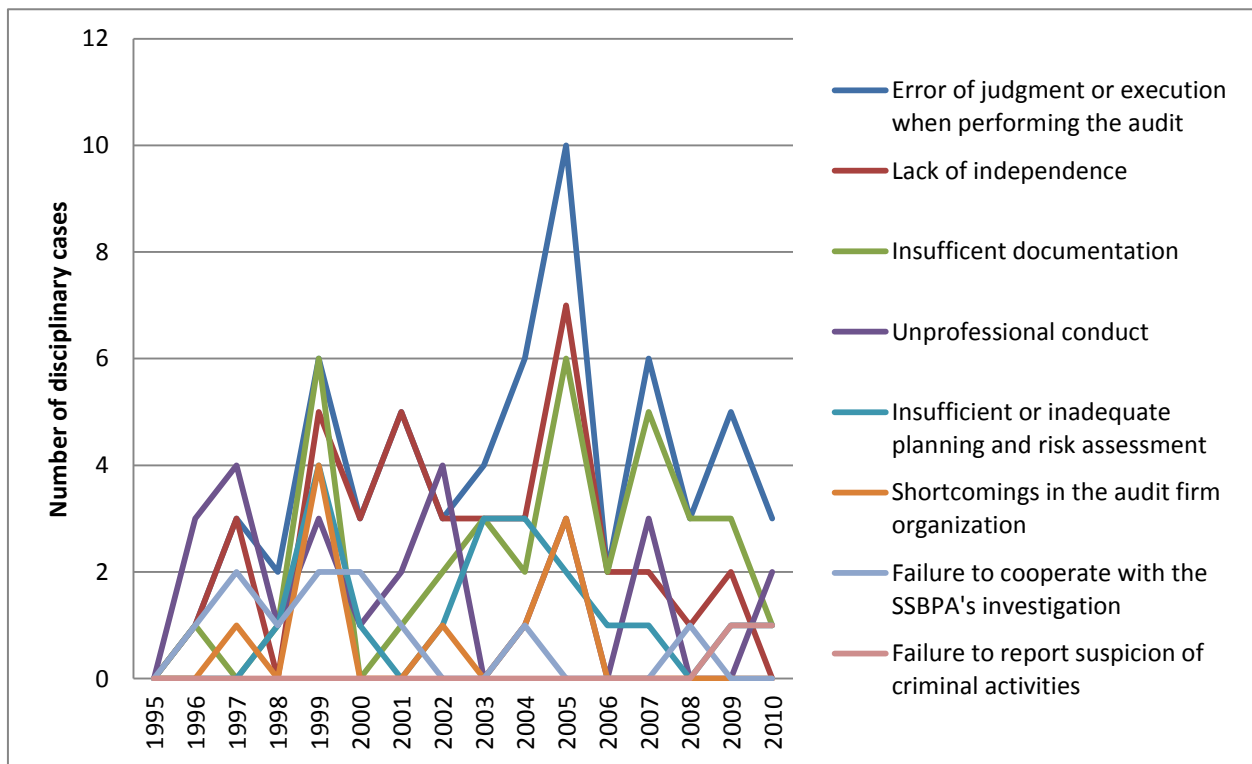
Med stöd av 22 § andra stycket revisorslagen upphäver RN A-sons godkännande som revisor. Med stöd av 25 § första stycket samma lag förordnar RN att beslutet skall gälla omedelbart.

Ärendet har avgjorts av RN:s ordförande Lennart Grufberg samt ledamöterna Arne Bækkevold, Eva Stenman From, Elisabet Fura-Sandström, Klas-Erik Hjorth, Margit Knutsson, Claes Norberg och Eva-Britt Nordhall. Vid den slutliga handläggningen har i övrigt närvarit kanslichefen Christer Lefrell samt chefsrevisorn Inger Blomberg, föredragande.

Appendix 3 - Compilation of all disciplinary cases

#	Process failures				Professional failures				Sum
	Error of judgment or execution when performing the audit	Insufficient documentation	Insufficient or inadequate planning and risk assessment	Failure to report suspicion of criminal activities	Lack of independence	Unprofessional conduct	Shortcomings in the audit firm organization	Failure to cooperate with the SSBPA's investigation	
1									6
2									5
3									5
4									5
5									4
6									4
7									4
8									4
9									4
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77									1

Appendix 4 – Main categories: Distribution of failures



Appendix 5 - Sub-categories: Distribution of failures

