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SCHOOL OF BUSINESS, ECONOMICS AND LAW

Reasons for Voluntary Audit

in Sweden

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Abstract

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Background: The Swedish Parliament passed a law change in late 2010, suspending the former requirement for all Swedish incorporated companies to have an auditor. The new limit values allow the smallest incorporated companies to dismiss the auditor of the company (or not appoint one in the case of a newly started company). The opinions of abolishing mandatory audit vary, and little research has been done post to the law change. However, a new situation has arisen, meaning the optional choice of voluntary audit, for some companies.

Aims and research questions: The aim of the thesis is to examine the reasons behind voluntary audit in Sweden, as well as what value companies, having chosen audit, see in their auditor. The following research questions have been used in order to fulfill the aim of the thesis: “Why do small private owner-led incorporated companies in Sweden voluntarily choose audit?” and “What value does the voluntarily chosen auditor add to the companies?”

Methodology: The research questions were formulated after reviewing relevant literature and scientific articles regarding the topic of voluntary audit, as well as the recent law change in Sweden. The method for data collection was semi-structured in-depth interviewing of five companies.

Analysis and conclusion: In the analysis segment the empirical results are put in relation to the studied theoretical framework and literature review. The theories used to explain the results are the Theory of Institutionalism, the Principal-Agency Theory and the Stakeholder Theory. Moreover, a number of international studies on voluntary audit can be said to correspond to the results in some aspects, but the empirical results show a wider perspective concerning the reasons and value of voluntary audit. One conclusion that can be drawn is that there is not a single reason behind choosing voluntary audit. Furthermore, the personal qualities and the relationship between the client and the auditor play an important role in the decision. The respondents find great value in their auditor and this depends on, for instance, the auditor’s availability and that they offer a wide range of counseling services.

Key words: Voluntary audit, Reason, Value, Auditor, Small private owner-led incorporated companies

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1. Introduction

In this section the background to the thesis topic is outlined. An abstract of the legislative circumstances is presented, as well as some short facts about effects of the law change on audit in Swedish companies. Thereafter, follows a short thesis topic discussion. Finally, the thesis aims are clarified, as well as the research questions and thesis design.

1.1 Background

“The conclusion drawn (...) is clear and straightforward: Also Sweden needs to abolish the mandatory audit for small companies.” (Thorell & Norberg 2005)

Burén and Nyqvist, authors of the preface to the investigation “Mandatory Audit In Small Companies”, performed by the Confederation of Swedish Enterprise, are firm about their conclusions on the results of the report. Burén and Nyqvist draw parallels to fellow European Union members, who have banned the mandatory audit for small companies, regarding the background for assigning two professors to examine why Sweden has been an exception (Thorell & Norberg 2005).

These opinions represent one perspective of many considering the values, benefits and costs connected to audit in small companies. However, the Swedish Parliament passed a law change November 1st, 2010, which suspended the former requirement for all Swedish unlisted incorporated companies to have an auditor (The Swedish Government Office 2010). The new limit values state that companies fulfilling two or more of the following values, for the last two financial years, fall within the mandatory audit. Otherwise audit is optional. (SOU 2008:32).

- Balance sheet total: 1.5 million SEK
- Net sales: 3 million SEK
- Number of employees: 3

The subject of the new option to dismiss the auditor, or not appointing a new one, has been extensively discussed in both general, as well as business media, before and after the law change. Studying issues of the accounting and audit business magazine *Balans*, between the years 2005 and 2013, one can establish that several articles discuss benefits and drawbacks of dismissal of the auditor in companies. One viewpoint is that in incorporated owner-led companies, the need for an external auditor to control its management is not necessary as the owner is engaged and working in the company (Thorell 2005). Another argument for utilizing the possibility of not having audit is cost reduction. The government bill states that the new law change could save up to 5.8 billion SEK a year for the affected companies (SOU 2008:32).

The government investigation offers an understanding to the background of the law change concerning the abolishment of mandatory audit. The investigation suggests that after the

requirement abolition only four percent of the Swedish unlisted incorporated companies would be obligated to appoint an auditor. The government investigation also proposes a number of changes in the tasks of the auditor. (SOU 2008:32)

Figure 1. Short Facts

According to the Swedish Companies Registration Office there were **426 940** registered incorporated companies **2012**.

By January 7th, 2013, **145 471** companies had made the appropriate change in their articles of incorporation to be able to dismiss the auditor, out of which 52 percent were registered before the law change and 48 percent after.

Out of the companies that made the change in their articles of incorporation **4.6 percent** (6 689 companies) still have an auditor appointed.

Consequently **32.5 percent** of the registered companies had dismissed their auditor by January 7, 2013.

Short facts about Swedish companies and their choice of having an auditor. Source: Hultberg, Swedish Companies Registration Office 2013.

Despite the arguments mentioned, several companies voluntarily choose to keep their auditor, e.g. voluntarily having their accounting and annual report audited. According to The Swedish Companies Registration Office (Hultberg 2013), 67.5 percent of the companies registered still have an auditor appointed. Some of those fall within the criteria of mandatory audit. Apparently, cost reduction and other advantages do not make the choice of dismissing audit obvious. However, the question regarding audit today is different for small companies, as it offers an active choice. What are the reasons behind voluntary audit? This question equals the line of argument throughout the subsequent sections of this thesis, and is aimed to be answered in the conclusion.

1.2 Research Topic Discussion

The research subject is not a problem, but rather a knowledge gap which this thesis aspires to contribute to filling. Several studies have been carried out researching other countries about reasons for voluntary audit, but since the Swedish law change so recently passed, very few studies exist regarding the perspective of Swedish companies. Consequently, the fact that the law change passed recently is one important reason this study can be considered relevant.

The identified groups who may be interested in the findings are the small companies who are no longer obliged to have an auditor. It is possible that when these companies find out what values others see in the voluntary audit, they may be enlightened about its benefits. The thesis may also be interesting for audit firms and auditors. It offers an opportunity for these groups to better understand why companies find the audit assignment important and useful, and can improve their services and/or lessen the expectation gap. The thesis might also offer a picture of whether the role of audit and the auditor has changed, for the companies studied, due to the law change. The last identified group that might find the thesis important is the government,

in order to get an insight of the effects of the law change, from the concerned companies' perspective.

1.3 Aims

The aim of this thesis is to examine the reasons why small private owner-led incorporated companies choose to voluntarily have a registered auditor, after the requirement was abolished in November 2010. By doing this we aspire to contribute to society with knowledge about the value of audit from the perspective of small business owners and managers. Additionally, we intend to investigate the role and value of the auditor, according to the companies. In order to fulfill the aim of the thesis, there are two main research questions that need to be answered, which are stated below.

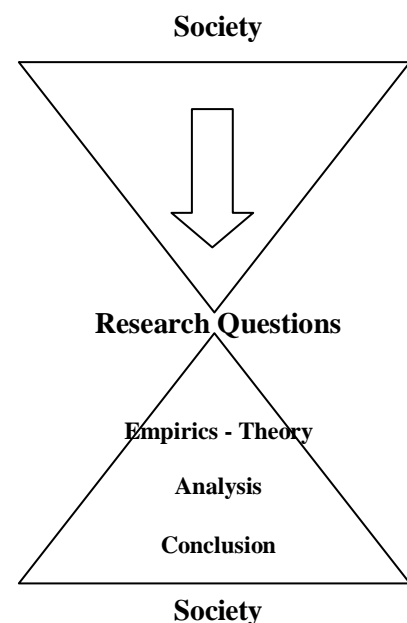
1.4 Research Questions

- Why do small private owner-led incorporated companies in Sweden voluntarily choose audit?
- What value does the voluntarily chosen auditor add to the companies?

1.5 Thesis Design

The thesis is designed to create a continuous line of argument connected to the research questions. These lie behind the choice of studied literature and theories, as well as the choice of empirical method and, moreover, the framework for the analysis. We have created Figure 2 to illustrate the thesis design. The thesis begins with a social context through the background segment about the abolishment of mandatory audit, leading up to the specific research questions above. The research questions were used to form an interview guide in the empirical data collection, meaning a wider range of questions to answer the research questions from a larger perspective. The research questions have also served as a starting point in the literature review. Consequently, the theoretical and empirical material has been analyzed with the purpose of answering the research questions. In the analysis and conclusion segments the perspective moves from the specific research questions and respondents to theoretical findings that can explain and relate to the empirical data. The findings of the empirical study are put in relation to the theoretical findings to try to find some general indications applicable and relevant on today's society.

Figure 2. Thesis Design



This figure is used to illustrate the design of the thesis.

2. Methodology

This section outlines the basics for the methodology used in the thesis. Fundamental scientific choices are explained, as well as the approaches for conducting the study. Moreover, the methodology of the thesis is discussed in terms of validity and reliability, as well as generalizability. Thereafter, the limitations of the thesis are outlined together with criticism of the references. Finally follows a short explanation of how the analysis of the results will proceed.

2.1 Research Method

2.1.1 Research Questions and Collection of References

The first step in the process of formulating research questions was going through audit and accounting business magazines, to find frequently discussed and relevant topics. The principally studied magazine was the business magazine Balans, in which a number of articles regarding the abolition of audit, and later the voluntary audit, were found. This subject was then chosen as the main theme of the thesis. Subsequently, the thesis aims and research questions were formulated. The research questions correspond to the starting point in the further study of theoretical frameworks and literature.

In the method reference collection process general business research literature was used. More specifically Blumberg et al. (2011), Collis and Hussey (2009) and Bryman et al. (2007), which were all found at the Undergraduate and Newspaper Library at the University of Gothenburg. The purpose of this process was to gain a structure for the methodology of the research and to gain knowledge of important research choices and perspectives. This to be able to conduct the research in a suitable way for the chosen aims and research questions of the thesis.

The theoretical framework in the thesis consists of three major theories regarding social context considered relevant for the thesis, e.g. the Theory of Institutionalism, the Principal Agent Theory, as well as the Stakeholder Theory. These theories were chosen in order to get a general theoretical background in relation to the empirical results, as part of the process of answering the research questions. The theories chosen also frequently occur in the business and the social science literature, respectively. The mentioned theories are meant to create a solid theoretical perspective to the more reality-based, subjective answers of the conducted qualitative empirical study.

Besides the three main scientific theories, a book by Johansson et al. (2005), which studies for instance the value of audit from the companies' perspective, was used. In the mentioned report, a range of stakeholders, in some way affected by audit, are interviewed about their views on different aspects of audit. The reason for this choice of reference is to get a more qualitative theoretical foundation for the analysis of the empirical results of the thesis.

In the search for valid scientific articles two databases were used: Web of Knowledge (WOS) and Scopus. The key words used were “voluntary” combined with “audit”. Combining those words with a third word, “Sweden”, nothing associated with voluntary audit was found. When choosing articles both words were used in the title, since these were the most relevant for this thesis.

The respondents in the empirical research were found through the database Retriever Business, which made it possible to search for small companies fitting into the criteria regarding number of employees, turnover and balance sheet total. A random sample of companies was chosen. The search was limited to companies not obligated to mandatory audit, but who voluntarily had a registered auditor. All of the databases were reached through the University Library at The University of Gothenburg.

2.1.2 Interviews

Companies fulfilling the specified criteria were contacted and those who approved to perform a personal interview were visited. The interview schedule used can be found in Appendix 2. A semi-structured form of interviewing (Blumberg et al. 2008, p. 265) was used. This decision was based on the fact that the starting point of the thesis is taken in the current situation. Further, the aim of the study is to find out the reasons behind the companies’ decisions and their views on the value added by the appointed auditor, allowing the respondents to add their own perspectives more freely.

In the search for five respondents to the study, a total of fourteen companies were contacted by phone. Four of the contacted companies were not reached after repeated trials, three declined due to lack of time and one declared interest in participating at first and asked to return after reading the interview guide, but did not, however. Six companies approved to being interviewed, out of which five were interviewed in person and one by phone. This thesis only contains the five companies that were interviewed in person, since the sixth company turned out to be required to have an auditor. The current company was interviewed anyway but the conclusion made was not to use these answers, as it would not contribute to answering the research questions. This respondent is not included in the further sections.

Despite the low number of respondents, the interviewed companies are representative for this study as they represent a variety of industries, with voluntary audit in common. Each company has specific and conscious reasons for making their decision. We were able to find both similarities and differences among the answers of the respondents. When contacting the companies and presenting the study on the phone, most companies were able to give us a preview of their perspectives on the research questions, allowing us to determine their relevance for the study.

The interview guide was outlined with guidance from Blumberg et al. (2008, p. 389) to get a continuous and well-structured interview. The first section of the interview guide contains administrative questions to identify the respondent. The second section contains classification questions, with the purpose of classifying respondents in relation to i.e. owner structure, choice of accountant etc. In the third section target questions can be found, which are directly connected to the thesis research questions. The interview guide was sent to four out of the five

respondents by email, prior to the interview (all of the respondents were offered to have it sent to them). However, the questions were answered at the actual interview with the respondents. The fact that the respondents had the questions sent to them prior to the interview, could have affected their answers. Despite this, we thought it was best to be open about what questions were going to be asked to make the respondents feel involved in the process. This was thought to increase their willingness to have an open dialogue, as well as the credibility of the study.

At the company visits the respondents were introduced to the interview and asked whether they approved of the interview being recorded. Approval is undoubtedly needed for recording interviews and the decision made was to use the data also in the non-recorded interviews. Ultimately, three out of the five respondents approved and were recorded. The respondents were also asked whether they wished to be anonymous or approved of being referred to with name and company name. One out of the five respondents chose to be anonymous. The decision to let the respondents decide whether to be anonymous or not was based on the belief that it would be easier to find respondents willing to be interviewed. Although, being able to mention the respondents by name increases the validity of the study.

Subsequent to the interviews, the respondents were emailed the transcribed interviews for approval and the possibility to make corrections and additional comments. Three of the respondents requested small corrections in the transcribed interview. Two of these three were non-recorded interviews. It should be noted that non-recorded interviews may imply a less exact collection of the respondents' answers. However, all the respondents were given a chance to make corrections of their transcribed answers, to avoid misconceptions in the non-recorded interviews. Thereby the interviews can be considered valid.

2.2 Research Paradigm and Classification

Due to the complexity of the studied problem and the difficulty in making quantitative measurements of motives, as well as words like value, an interpretivistic perspective (Collis et al. 2008 pp. 56-57) is taken in the thesis. We believe an objective reality does not exist when it comes to reasons for voluntary audit. The aim is to discover some common points, as well as obtaining a deeper understanding for the business owners' decisions. Furthermore, it is assumed that different social and situational aspects can affect the choice of choosing voluntary audit. It is assumed that the social circumstances are closely tied to the studied corporations and respondents, as well as the authors of the thesis and its readers.

A qualitative research method has been used in this thesis (Bryman et al. 2007, p. 28). The aim is to gain an understanding to the social context of auditing through collecting qualitative information from a small number of respondents. Further, the thesis has an inductive approach (Blumberg et al. 2008, pp. 21-22) due to its objective to examine the reasons behind the current situation regarding voluntary audit, rather than testing a hypothesis. The aim of the study is to understand the meaning of its results related to studied theoretical framework and literature, contrary to testing a hypothesis or proving a theory.

Regarding study purpose the method is rather casual than descriptive (Blumberg et al. 2008 p. 149) due to the character of the questions asked, prominently asking the question why. The

selection of business owners interviewed is focused on the criteria for the voluntary audit. The data collection method is communication study (Blumberg et al. 2008, p. 148), through personal in-depth interviews or telephone interviews.

2.3 Reliability, Validity and Generalizability

Since this study is interpretivistic rather than positivistic, one should be aware this may affect its reliability. It will be difficult to prove that the same results would be found if the study was repeated in the future. Additionally, other circumstances might be different in the future such as laws, political initiatives and preferences of the companies. One should be conscious that the study represents a snapshot of the contextual reality for the respondents. The aim is to gain better understanding of what arguments and reasons the respondents have for their discussion to keep their auditor despite the abolishment of the requirement.

This study is considered valid for investigating the research questions. Since the assumed view is that there is no objective answer to the research questions the research method of in-depth interviewing is believed to be a good way of understanding why the companies have chosen voluntary audit.

Regarding generalizability (Collis et al. 2009, p. 65), it is difficult to say whether the results of the study will be applicable on all or most similar companies, both due to the small number of companies that will be studied, as well as other situational factors. However, it is believed that the study can say something about the value of audit for these companies and the reasons behind their decision.

2.4 Limitations of the Research

The study is limited to private owner-led incorporated companies. A further limitation is that the study is restricted to only five companies. Due to this, generalization of the results may be difficult, but it is estimated that the number of respondents will still give a good picture of the companies' views regarding our research questions.

The study is also limited to the perspective of the business owner, and also managers (hence studying private companies managed by their owner). This may give a biased picture of the value of voluntary audit compared to had other stakeholders been studied such as credit givers, The Swedish Tax Agency or employees. Finally, no specific industry is studied.

2.5 Criticism of the References

The references used in the thesis are primary data in the form of empirics from the performed interviews. Since the study was limited to a number of five companies, it should be considered no complete answer to the research questions is possible nor aimed upon reaching. The used research method through personal interviews could imply a risk of misunderstanding between the interviewer and the respondents, as well as personal and contextual perspectives coloring the empirical results. The aim is to provide accurate data through documentation of the interviews and approval of the transcribed answers from the

respondents. Those interviews that were not recorded might imply a higher risk of not describing the respondents' answers as exact as had they been recorded. The interviews were held in Swedish and translated into English in the thesis. This might impose linguistic misconceptions or interpretations of the interviews.

The references used for the theoretical base of the study are collected from scientific literature. The chosen theories for the thesis are all general theories and not specific for the subject of voluntary audit. In future research one might find it interesting to relate a similar study to theories directly connected to the topic of research.

Furthermore, studies on voluntary audit in other European and worldwide countries have been consulted. It is considered that studies performed in other countries may not be fully applicable since laws and corporate environments vary between countries. Many of the international references are also quantitative which may obstruct the comparison with the results.

2.6 Proceeding with the Analysis

Related to the research questions the material was analyzed and compared in terms of finding common views, differences and further conclusions to our thesis. The structure of the analysis follows the one of the interview guide, which builds on the research questions of the thesis. Consequently, the analysis aspires to connect the empirical results to the research questions and aims of the thesis, as well as the theoretical framework and literature. In the studied literature a number of reasons behind voluntary audit in former research can be established. These reasons have been included in the interview guide and will be applied on the empirical results in the analysis of this thesis. It may be difficult to directly imply the found results of former international research on voluntary audit on the results of our study, due to the nature of the research (qualitative, semi-structured interviews in contrast to mostly quantitative studies).

In the presentation of the data collection in the Empirical Results section of the thesis, the answers of the respondents are presented based on the structure of the interview guide. The answers have also been put together under general headlines to facilitate the reading and comparison of the answers of the respondents. Further, the same structure is used in the Analysis section.

3. Theoretical Framework

In the theoretical framework the theories essential to the analysis section are outlined. These theories are later put in relation to the found results of the empirical research. The consulted theories used in the thesis are the Theory of Institutionalism, the Principal-Agency Theory and the Stakeholder Theory.

3.1 The Theory of Institutionalism

In the preface to *Institutioner och institutionell förändring: Perspektiv, teori och tillämpning på kommunal förvaltning* a situation is described, where the professor asks the students “Why is it you are sitting in long rows and I am standing by myself turned towards you?” This question corresponds to an introduction to the concept of institutionalism, as a reason behind circumstances in which things are assumed to be in a certain way (Brorström 1999, p. 5). Scott (2008) uses the following definition: “Institutions are comprised of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life.” (Scott 2008, p. 48). Institutionalism is, moreover, described by Peters as a major approach of political science, standing in contrast to the more individuality based theories of behavioralism and rational choice. Peters claims that institutionalism is based on the assumption that institutions (formal and informal) affect individuals’ choices and opinions (2005, p. 1).

Scott (2008, p. ix) states: “How are we to regard behavior in organizational settings? Does it reflect the pursuit of rational interests and the exercise of conscious choice, or is behavior primarily shaped by conventions, routines, and habits?”, describing a prominent question raised by institutionalism. Further, the question “How do differences in cultural beliefs shape the nature and operation of organizations?” is outlined.

Peters (2005, pp. 3-9) presents two concepts, i.e. “The old institutionalism”, as well as “The new institutionalism”. The first perspective of the old institutionalism is the importance of law in governance, i.e. the perspective of legalism. It is believed political institutions are mainly constituted by law. Secondly, he mentions the significance of structure’s effect on the actions of individuals, in speaking of the old institutionalism. The structures of a system determine its future development. Examples of structures could be the polity of a national state or the structure of which a national state is connected to its society. In structuralism focus lies on the formal aspects of a political system or organization. Moreover, the old institutionalism conducted a historical perspective, i.e. it is assumed historical events are assumed to have an impact on today’s reality regarding political science, socio-economic circumstances, as well as culture. Long term patterns are viewed to affect the way society affects politics and vice versa.

Peters (2005, pp. 43-44) concludes the new institutionalism as a reaction to more individualistic approaches where a person is believed to make independent political choices. The collective foundations to human behavior are in focus in the new institutionalism. Peoples’ decisions are assumed to be colored by their institutional attachments. Further, it is said that the behavior of individuals has a normative ground; it is affected by political or organizational cultures and values rather than formal structures. Peters criticizes the normative traits of the new institutionalism and they are therefore difficult to prove wrong and separate from other influential factors.

Scott (2008, p. 51) uses the following table to illustrate “The Three Pillars of Institutions”, i.e. three factors believed to create or sustain institutions. Consequently, components and their effect on each “pillar” are described respectively.

Figure 3. Three Pillars of Institutions

	<i>Regulative</i>	<i>Normative</i>	<i>Cultural-Cognitive</i>
<i>Basis of compliance</i>	Expedience	Social obligation	Taken-for-grantedness Shared understanding
<i>Basis of order</i>	Regulative rules	Binding expectations	Constitutive schema
<i>Mechanisms</i>	Coercive	Normative	Mimetic
<i>Logic</i>	Instrumentality	Appropriateness	Orthodoxy
<i>Indicators</i>	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logics of actions Isomorphism
<i>Affect</i>	Fear Guild/Innocence	Shame/Honor	Certainty/Confusion
<i>Basis of legitimacy</i>	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

Description of the three pillars of institutions. Source: Scott (2008, p. 51)

3.2 The Principal-Agency Theory

Laffont and Martimort (2002) develop the principal-agent model in the perspective of what they call “The Theory of Incentives”. This is based on the fact that the company owners must appoint an agent to run the firm. The agent has access to more information and information asymmetry applies in relation to the principal. More so, it is mentioned that there might be risks that the agent will act in private interests rather than in the interest of the principal.

The theory presupposes that the objectives of the principal and the agent may not be aligned and that the principal has to use different methods to control the agent (Laffont & Martimort 2002, p. 2). At this point the audit can help contribute with control of the agent. Since the controls performed by the auditor have the purpose of assuring the correctness of the financial reports, the principal avoids the agent acting in own interest and decreases the information

asymmetry. This is shown below in Figure 4. However, the principal of course has an interest in the specific competence of the agent and can therefore not control her or him perfectly. Moreover, it is pointed out that the social relationships in small groups are compound and the business culture may play a role (Laffont & Martimort 2002, p. 2).

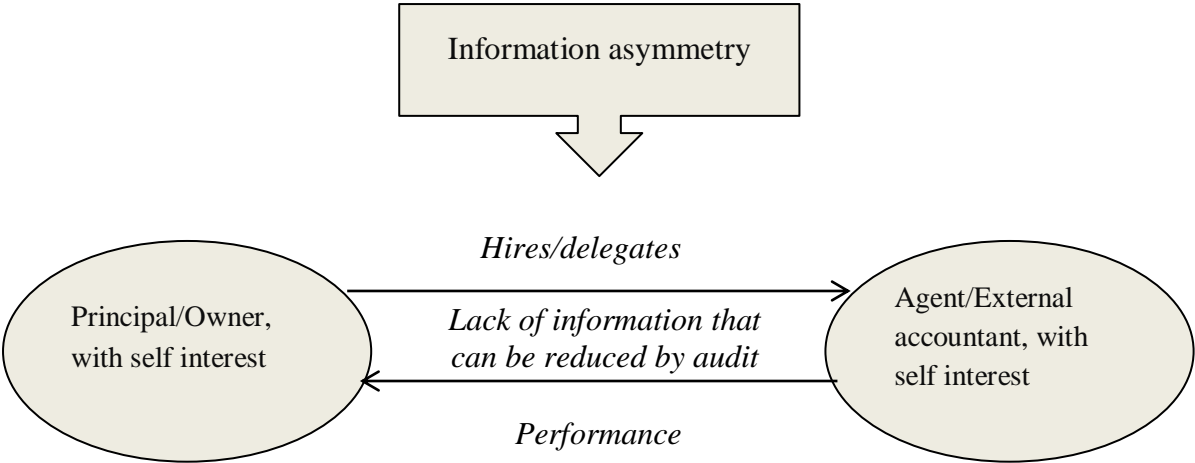
One way the information asymmetry may be displayed is in a situation where the agent possesses private information about an assignment, either by actions hidden from the principal, unshared knowledge about the value or cost of the operation (Laffont & Martimort 2002, p. 3).

Another information asymmetry issue mentioned is “nonverifiability”, which means the principal and the agent share some piece of information that no third party has access to. All of these issues will cause agency costs, meaning the lack of information for the principal at the signing of the contract. The contract is used to minimize the agency costs. (Laffont & Martinmort 2002, pp. 3-4)

Jensen and Meckling (1976) point out that the agency problem occurs in cases where the principal needs to make delegations to the agent. They argue that if they both make those decisions benefitting their own interest the most, the agent will make decisions that are not utility maximizing for the principal. Laffont and Martimort (2002), and Jensen and Meckling (1976) also mention incentives as a strategy commonly used for decreasing the agency costs, and causing negative consequences for the agent if they act in an unwanted manner.

In the classic figure of the Principal-Agency Theory, the owner of the company serves as the principal, whereas the manager as the agent. The studied companies in this study, however, were owner-led, thereof the following model with the external accountant as agent. If the company hires an external accountant this might imply a need to control the external accountant (agent) who in this case has more information in some areas, than the owner (principal). The auditor could then be used as a control mechanism of the agent through the audit controls.

Figure 4. Information Asymmetry



Information asymmetry emerges between the two parties. Source: Made with inspiration from <http://de.academic.ru/dic.nsf/dewiki/1131339>.

3.3 The Stakeholder Theory

According to the Swedish Companies Act, a company's purpose is to maximize the value for its shareholders. If the company has a different purpose, it must be stated in the articles of incorporation (ABL 3:3). According to the Stakeholder Theory, however, not only the shareholders are of importance, the company is also responsible for creating as much value as possible for their stakeholders (Freeman & Reed 1983). If the company only tries to maximize the value for the shareholders, all the other important stakeholders can easily be overlooked (Reference for Business 2013). To be able to be successful over time, companies must keep the interest of the stakeholders and shareholders aligned (Financial Times Lexicon 2013).

In a narrow view, the stakeholders include any group or individual that the company is dependent on for its survival, such as employees, customers, suppliers, government agencies, shareholders and banks/lenders. A wider view of the Stakeholder Theory also includes groups or individuals who can affect or are affected by the company. This wider view includes, despite the stakeholders stated above, competitors, protest groups, trade associations, unions and public interest groups (Freeman & Reed 1983).

4. Literature Review

The following section contains a review of the consulted literature and scientific articles in the thesis. The literature references have been used, together with the studied theoretical framework, for analyzing the empirical results.

4.1 The Value of Audit from the Companies' Perspective

Uppdrag revision: Revisorsprofessionen i takt med förväntningarna (Johansson et al. 2005) is a book put together by three editors at the Mid Sweden University between the years 2001 and 2003. It was a part of the research programs “The auditors and accountants of the new time” and “Accounting and audit in private and public companies” with funding from the European Union. The book focuses on the expectation gap between the stakeholders of audit and the actual services performed by auditors. A central point is roundups with key professionals and academics in the audit, business and accounting fields.

Johansson et al. (2005, p. 172) discuss the expectation gap between the client and the auditor regarding the task of the auditor. Kajsa Lindståhl, board member of the Panel of Enforcement for Financial Reporting, board member of Skandia, as well as member of audit committee for Skandia, says that there is a risk that standardized audit reports may increase the expectation gap (Johansson et al. 2005, p. 174).

Johansson et al. (2005) clarifies that the expectation gap regarding the audit services seems to be smaller among private owner-led companies. The reason behind this, according to Johansson, is that the relationship between the auditor and the company is more personal and that trust is of great importance. Johansson points out the two characteristics “high professional competence” and “strong personal integrity” as important issues in giving the auditor a strong position in the companies. Mentioned is also the importance of the auditors' personal role. (Johansson et al. 2005, pp. 196-197).

In the chapter about corporate governance, the perspective of separation of powers in companies is pointed out. One purpose of having an auditor is consequently to separate the power between different stakeholders within the company (Johansson et al. 2005, pp. 122-123). Johansson et al. (2005, p. 54) describe the auditor's role as following “Being an auditor is in the highest degree a question of interaction and being able to handle relationships” .

Regarding the subject of the audit's value for the company Johansson et al. point out the difficulty for the companies themselves to determine the quality in terms of performed controls and used methods. Further stated is that the client is assumed to trust the correctness of the audit, and that the purchased “product” is in fact the feeling of security and comfort in the financial reports. The quality concept seems to be difficult to define but it is stated that good quality could be looked at as the absence of bad quality (Johansson et al. 2005, pp. 55-56).

4.2 Scientific Articles

4.2.1 “Voluntary Demand for Internal and External Auditing by Family Businesses”

Carey et al. (2000) research the demand for voluntary audit among 186 Australian medium-sized family businesses. This study was conducted with companies which are operating in an environment where mandatory audit is not prescribed by law. The authors examine whether the demand for audit increases with the proportion of nonfamily management and nonfamily board of directors. They also examine whether the firm’s size and the firm’s level of debt have a positive effect on voluntary audit. The authors could accept both of the hypothesis regarding the amount of nonfamily management and board of directors. This means that when the proportion of nonfamily management and board of directors increases, the owners tend to want more monitoring to reduce the information asymmetry between them. The external audit is used as a monitoring instrument of the management. Subsequently, the authors find evidence that the level of debt in a firm is positively correlated with the demand for external audit. Hence, the higher the level of debt, the more likely it is that the firm will hire an auditor to increase the assurance among credit givers. At last, the study could not find a correlation between company size and demand for external audit.

4.2.2 “Voluntary Audits versus Mandatory Audits”

A study done by Lennox and Pittman (2011) examines whether mandatory audit among UK companies will inhibit important information about the companies that would otherwise choose voluntary audit. The authors do not answer the question why companies choose to voluntarily appoint an auditor, but the paper can still bring some insight in why companies make the decision. The research was carried out in 2003, when the mandatory audit still applied, and 2004, when the audit had become voluntary. The paper states that companies who chose to voluntarily appoint an auditor increase their credit ratings, in contrast to had they been obliged to be audited. On the other hand, those companies that dismissed their auditor decreased their credit ratings. The paper further concludes that a change from mandatory audit to the possibility of optional choice will send important messages to credit givers.

4.2.3 “Directors’ View on Exemption from the Statutory Audit”

A research report commissioned by the Department of Trade and Industry in the UK done by Collis (2003) analyzes the view of directors in 790 companies on the exemption from the statutory audit. Collis find evidence, in contrast to Carey et al. (2000), to the fact that the likelihood that the director will choose voluntary audit increases with turnover. Choosing voluntary audit also increases with the perception that the audit gives assurance that the accounting records and systems are correct, it improves the firm’s quality of financial information and it has a positive effect on the credit rating. Alike what Carey et al. (2000) found evidence of, directors are more likely to choose voluntary audit if the company is not wholly family-owned. The last two reasons found was that voluntary audit increases if external shareholders without access to financial information exists and if the company gives a copy of their financial information to the bank or other lenders. In the report, there were two hypotheses that had to be rejected: the directors’ perception that an audit improves the credibility of the financial information, as well as the hypothesis that the director having a

degree in or having studied business or management increased the probability of voluntary audit.

4.2.4 “The Demand for the Audit in Small Companies in the UK”

Collis et al. (2004) conducted the study “The demand for the audit in small companies in the UK”. The authors state that the probability of choosing voluntary audit increases with the company’s size (turnover, balance sheet total and/or employees), if the director thinks that the audit serves as a check on the internal controls and that it increases the quality of the information. If there are agency relationships with lenders and between owners, because of the company not being wholly family-owned, the demand for voluntary audit increases.

4.2.5 “Determinants of Voluntary Audit and Voluntary Full Accounts in Micro- and Non-micro Small Companies in the UK”

In another study by Collis (2012), 592 small companies in the UK are examined and the study investigates the determinants of voluntary audit in micro- and non-micro companies in the UK. Collis came to the conclusion that when revenue increases, the demand for audit also increases. Moreover, the author found evidence that voluntary audit is positively correlated with the agreement that it has a positive effect on the company’s credit rating. If the company has been given advice by their external accountant it is also more likely that they choose to keep the auditor. Voluntary audit can further be explained by the demand from existing investors. Subsequently, perceived demand from lenders is a reason behind voluntary audit, but it is clarified that the perception that major customer or suppliers demand audited accounts is not a factor for voluntary audit.

The study further shows that if the company has shareholders who are not involved in the daily business, voluntary audit is more likely to occur. Collis (2012) also finds evidence that voluntary audit is less likely if the company is wholly family-owned. Tradition and habit are significant factors for micro-companies as well. At last micro-companies think that audit is a good check in their accounting systems and records and that the companies who are being audited do not think the cost is a major burden. Collis (2012) rank the determinants of voluntary audit based on how powerful they are and the most powerful is the external accountant’s advice. Secondly, comes that the cost is not a major burden. The third determinant is based on the company’s turnover, and the fourth is the perceived demand from bankers/lenders and final is that audit provides a check on accounting systems and records.

4.2.6 “Drivers of Voluntary Audit in Finland: To be or not to be Audited?”

A recent study done in Finland (Niemi et al. 2012) examines reasons behind voluntary audit for small, private Finnish companies. A sample of 412 companies was used. These companies still had mandatory audit at the time of the study, hence the drivers of voluntary audit are based on expected behavior. The authors find evidence for the hypothesis that accounting outsourcing will create information asymmetry between the management and the external accountant and that this will increase the demand for voluntary audit. Further, the paper states that if the external accountant provides tax advisory, the voluntary audit will be less probable, likewise would purchasing a qualified opinion from the auditor. The paper also shows that companies in financial difficulties may be more willing to hire an auditor voluntarily.

Additionally, the paper states that if the company has received a qualified audit report it may affect the demand for voluntary audit negatively for the following years. In its conclusion the authors think that factors such as company size, external financing, monitoring internal control and the aim of improving the financial reports' quality are important incentives behind voluntarily audit. Finally, they argue that a factor that may reduce the companies' demand for voluntary audit could be former conflicts related to audit reports.

Figure 5. Most Frequently Mentioned Reasons for Voluntary Audit

- Increases the quality of the financial information
- To increase credit ratings
- Increases with turnover
- Assurance that the accounting records and systems are correct
- Not wholly family-owned
- Increases with size
- Check on the internal controls

A more extensive table of the most frequently mentioned reasons for voluntary audit, mentioned in the studied scientific articles, can be found in Appendix 3.

5. Results of the Empirical Data Collection

The following section contains the results of the empirical data collection through the performed interviews. The structure used is related to that of the questions in the interview guide. The same structure is also used in the following analysis section. The headlines in this section are used to illustrate the major empirical findings relevant in order to answer the research question of the thesis. When a scale occurs in the answers of the respondents, one equals “not at all correct” and five “completely correct” .

5.1 Presentation of the Respondents

A total of five companies of various industries were interviewed. Below follows a presentation of the respondents and their companies.

5.1.1 R.A.K. Arkitektur & Planering AB

R.A.K. Arkitektur & Planering AB is an architecture business where Staffan Rossing was interviewed. Rossing is an architect and the majority shareholder. He is one out of two board members and the majority shareholder of a total of four shareholders. The shareholders are all within the same family.

5.1.2 Experience African Adventure and Hunt Aktiebolag

Experience African Adventure and Hunt Aktiebolag is a travel agency, specialized on travels to Africa. The CEO, Jan Jacobson, was interviewed and he is also the only board member and the majority shareholder. Jacobsson and the other shareholder are not within the same family.

5.1.3 Going Places AB

Going Places AB is a consulting firm in business development, leadership and sales, as well as communication training. The CEO Örjan Olsson was interviewed. Olsson is the only shareholder and board member.

5.1.4 Koffitea AB

Koffitea AB's business consists of selling coffee, tea and other beverages to cafés, bars and restaurants. The respondent, Mark Nydéus, is CEO of the company, and is also one out of three board members, as well as shareholders. These three shareholders are not from the same family. However, they are friends and had known each other about three years when starting the business.

5.1.5 Company A

The last company is referred to as Company A and Respondent A, respectively, hence the respondent chose to be anonymous. The company performs consulting in accounting and financial consultation. Respondent A is the business manager and the only shareholder and board member of the company.

5.2 Internal or External Accounting

Since all of the respondents are business managers and/or CEO of the company they are responsible of the finances. The majority of the companies hire an external accountant, with the exception of Respondent A, who performs the accounting themselves. Respondent A has a degree from the School of Business, Economics and Law at the University of Gothenburg. The other respondents have not performed graduate or post graduate studies in business administration. Olsson, however, took accounting as a part of his high school education.

Rossing states that the hired audit firm, besides audit, performs accounting, produces financial reports, and files the income tax return. Nydéus explains that his hired auditor firm also does the accounting and annual accounts. Jacobsson performs the accounting internally in the company but hires an external accountant for quarterly controls. Further, Olsson leaves all of the finances to an external accountant. Olsson says he is of the belief that he should focus on his best competences and not spend large amounts of time on accounting that could be outsourced. He states his focus should be on sales and communicating with clients rather than keeping the books.

5.3 Stakeholders of the Financial Information

On the question “Which stakeholders read the company’s financial information?” Rossing, Respondent A and Olsson answer that their experience is that no one particularly reads or asks for the financial information of the company. Olsson says that when visiting the bank, he brings the annual report. Nydéus, on the other hand, states that competitors, customers and probably family and friends read it. However, the only one who has asked Nydéus for Koffitea AB’s financial information is the new landlord of the business facility.

Jacobsson states that the stakeholders reading Experience African Adventure and Hunt Aktiebolag’s financial information are the bank, The Legal, Financial and Administrative Services Agency (a public organ handling for instance travel guarantee issues), as well as The Swedish Tax Agency.

None of the interviewed companies have significant external financing. Only Nydéus states that they have a couple of account credits. Respondent A mentions the need for external financing is less in service companies. The reason for this is that there does not have to be as many required costs in a service business compared to merchandise business.

5.4 Reasons for Voluntary Audit

The respondents were first given the opportunity to answer the question of reasons for voluntary audit freely. Thereafter, they were asked to grade the correctness of a number of statements regarding their decision of choosing audit. The statements were mentioned as reasons for voluntary audit in the consulted literature. Figure 6 presents the reasons behind voluntary audit, freely answered by the respondents. Figure 7 corresponds to those reasons, mentioned in the studied literature, that were given the highest grades by the respondents. The

question of reasons behind voluntary audit is closely connected to that of the experience value of the auditor, which will be presented in section 5.5.

Figure 6. Mentioned Reasons for Voluntary Audit (free answer by respondents)

- | | |
|-----------------------------------------------------------|--------------------------------------------------------|
| · Legal requirement from the beginning | · “Like an insurance” |
| · Habit | · Personal relationship/the personality of the auditor |
| · Feeling of security | · Available to get in touch with |
| · Correctness/quality of financial information | · Previous experience of the auditor/Recommendation |
| · Sounding board | · Saves time |
| · Coach | · Practical |
| · Auditor knows the company well | · Gives good impression to the Swedish Tax Agency |
| · The auditor helps us with follow-ups on performance | · The auditor possesses specialist knowledge |
| · Helps the owner focus on their core business/competence | |

A summary of the respondents’ free answers of their reasons for voluntary audit.

Figure 7. The Highest Points in Grading Reasons for Voluntary Audit

- | |
|----------------------------------------------------------------------|
| · Increases the credibility of the financial information (4/5) |
| · Increases the quality of the financial information (3.8/5) |
| · Helps us check that the financial information is correct (3.4/5) |
| · It assures us of our internal control system (3.4/5) |
| · We lacked in knowledge in accounting and financial reports (3.2/5) |
| · To send a positive message to credit givers (3.2/5) |
| · Out of tradition and/or habit (3.2/5) |

The respondents’ average grades of statements of reasons for voluntary audit. A more extensive table of the highest points in grading reasons for voluntary audit can be found in Appendix 4.

5.4.1 Quality and Correctness

On the question “Why has the company chosen to appoint an auditor?” Rossing says that an auditor serves as a guarantee for the correctness of the financial information. He further states that the auditor serves as an assurance that the financial information is correct. Jacobsson feels a security in having control over the company and knowing the financial information is correct. Olsson’s view is that the auditing services are worth the cost for the feeling of security. “An auditor to me is like an insurance”, Olsson says. Olsson thinks there would be a risk important tasks would be missed had he himself handled the some of the assignments of

the auditor/audit firms. Nydéus and his co-owners have recently decided to dismiss their auditor and also change audit firm, however, his answers are based on the decision of choosing audit from the beginning. Nydéus says it was viewed as security having a big audit firm behind the company if any issues or problems would arise. Nydéus declares that it felt safe having an auditor from a well known audit firm signing the audit report.

5.4.2 Regulative Reasons

Respondent A was previously an auditor. Respondent A states that there were former legislative or regulative circumstances that obliged the company (that from the beginning performed audit) to have an auditor. In 2012 Respondent A chose to no longer be an auditor and changed the core business from auditing to consulting in accounting. Consequently, previous to 2012 Respondent A did have an auditor, despite formerly being an auditor. The reason for keeping the auditor post to the change in core business, was simply that the auditor happened remain. Further, Jacobsson states that the Legal, Financial and Administrative Services Agency actually demands audit because of the travel guarantee for Swedish travelers.

5.4.3 Internal Control

Nydéus mentions that having an auditor facilitates the trust between the three shareholders in the company. This as the auditor serves as someone who controls the activity in the company and that the auditor hopefully quickly realizes if something is wrong.

5.4.4 Time-saving, Specialist Knowledge

Rossing declares that having an auditor saves valuable time. Stating the three most important determinants for voluntary audit, Rossing first mentions having an auditor lessens his own work load. Further, Olsson thinks he has good skills regarding some tasks, and for others he hires help. He mentions he does not believe that he, as a self-employed entrepreneur, should occupy himself with performing the accounting. He thinks he should focus on sales and delivering his core services, rather than keeping the books. Consequently, Olsson mentions a reason behind choosing to keep his auditors is the fact he believes he should focus on his major competence and leave the rest to someone else. Additionally, Rossing states the auditor possesses specialist knowledge.

Had he not appointed an audit firm, Olsson says he would probably let his external accountant be more involved, something he declares would also imply a cost for the company. Olsson stays in close contact with his auditor and can ask him almost anything and he states the auditor will then come up with a solution. Stating the three most important determinants for voluntary audit, Olsson mentions the auditor as a security, that he should do what he is good at and the fact that he can ask his auditor about anything, even private matters such as questions about private income tax return.

5.4.5 Stakeholders

Rossing mentions that audit contributes to making a good impression in the income tax return and to The Swedish Tax Agency. Jacobsson states that having an auditor serves as a seriousness label in contact with the bank. He thinks that by the day you do need an investment, the bank

knows your company and the fact that the company has been audited can facilitate the bank's decision. He thinks this process will be easier than had the company not been audited.

Respondent A says that the current auditor will be dismissed soon. Respondent A does not believe there is a reason for keeping the auditor but believes that, in general, a reason for small companies keeping their auditor is that it gives a good impression in the income tax return to The Swedish Tax Agency. Respondent A further states that if the company does not have an auditor, or an external accountant, The Swedish Tax Agency is more likely to review the company in more detail.

5.4.6 Tradition and Habit

Jacobsson explains that one reason he chose to keep his auditor is due to habit. None of the other respondents mentioned this factor in their free answers. However, when grading the statements regarding reasons for voluntary audit, tradition and habit received the average grade of 3.2/5.

5.4.7 Sounding board

Since Jacobsson is the only board member he does not have a natural discussion partner in financial questions, which is why he uses the auditor as a sounding board and coach. They cooperate regarding future plans for the company, business analyzes, changes of course of the company, etc. Jacobsson mentions the coaching function of the auditor as the most important reason for his choice of audit.

5.4.8 Trust and Personal Relationship

Rossing says that he trusts his auditor. Olsson declares that the personal relationship to the auditor serves as an important aspect. In retrospect, Nydéus says the company has rather experienced several problems concerning the audit services. It has been difficult getting in contact with the auditor and receiving desired help in cases of experienced obstacles regarding accounting, for instance. Nydéus believes that Koffitea AB is too small of a company for such a big audit firm and he mentions this as a reason for recently deciding to change to a different audit and accounting firm.

5.5 The Value and Role of the Auditor

The respondents were asked to answer the question of what value the auditor adds to the company, according to them. Figure 8 states their free answers on this question. The respondents were, moreover, asked to grade the correctness of statements regarding what the auditor contributes with to the company, see figure 9.

Figure 8. “What Value Do You Think the Auditor Contributes With to the Company?” (free answer by respondents):

- Sounding board
- Advisor in tax and insurance questions
- Advisor in case of passing of the manager/owner/shift of generations
- Advisor in personal finance
- Coaching
- “Available in 360 degrees of life”
- Business advisor
- Financial advisor
- Knowledge
- Experience
- Advisor in accounting questions
- Easy to get in contact with/Availability
- Networking/Making new contacts (through client events)

A summary of the respondents’ free answer of what the auditor contributes with to the company.

Figure 9. Average grading of the Correctness of Statements by Respondents

- Increases the credibility of the company (3.6/5)
- Serves as a sounding board in financial questions (4.4/5)
- Helps us with questions about laws and regulations regarding accounting (4.4/5)
- The auditor helps us feel better about the accounting/feeling of security (4.2/5)

The respondents’ average grading of the correctness of statements regarding what the auditor contributes with to the company.

5.5.1 The Multi-dimensional Role of the Auditor

Rossing believes that the auditor adds value to the company, by being easy to get in contact with. Rossing’s experience is that he can always call his auditor (Rossing states the same is true regarding the external accountant that comes from the same firm as the auditor). In addition to the audit, Olsson says that the auditor contributes by being available for a wide range of questions and matters, also in other areas than the company. Olsson is of the experience that even if an issue is not directly connected to his core business, he can always ask his auditor.

Olsson values his auditor highly. That is connected with the feeling of security and the perception that outsourcing certain services makes it possible for him to concentrate on other things. Hence, Olsson thinks the auditor enables him to feel calm. He declares he already has many other things on his mind than the accounting, for example his other companies. Regarding the value of the auditor (that will be dismissed shortly after the time for the interview) Nydéus sees no value. Nydéus believes the new auditor (who will not perform

audit) at the newly hired firm, contributes with more value. According to Nydéus it is important to have someone with the knowledge and experience who is familiar with the specific kind of company. That enables the auditor to give advice about financial transactions and questions about the business in general. Moreover, Nydéus believes that he receives more of these values with the new audit firm, even though Koffitea AB no longer will be audited. He means it is rather the auditor than the audit that contributes with value to the company. Respondent A thinks the auditor has knowledge about the business in general and can therefore compare the performance of the company with other similar companies

5.5.2 Networking

Rossing's audit firm arranges events/meetings which, according to Rossing, offer a good opportunity for making new business contacts and networking. Also, Olsson mentions that having an auditor can be a good way to make contacts and for networking.

5.5.3 Financial Counseling and Coaching

In addition to the audit, Rossing is of the opinion that the auditor contributes with advice. Jacobsson ascribes great value to his auditor. This has to do with the fact that she serves as a coach to him and the company, and the fact that they can mutually encounter questions that might come up. Jacobsson further says the auditor is skilled at solving problems and she is able to find creative solutions to issues that might arise. Besides the audit, Jacobsson thinks his auditor contributes with coaching (as mentioned), as well as being a sounding board. Furthermore, Olsson says the auditor is his financial advisor on a corporate level.

Respondent A has a different approach because of the fact of being a former auditor, which is the reason for answering the questions from two perspectives. First, Respondent A made the answers in the perspective of manager/business owner for Respondent A's own company, but more significantly Respondent A answered the questions from the perspective of small-business owner that fall within the criteria of voluntary audit. Respondent A believes that the value the auditor gives companies in general is that they play the role of a sounding board, an advisor in tax questions, insurance questions, as well as the case of the managers passing away, shift of generation in family business, as well as questions about personal finance. Besides the audit, Respondent A believes that the auditor contributes with budgeting, goal setting of the company, as well as follow-ups.

5.5.4 Personal Qualities of the Auditor

Jacobsson states that if his auditor were employed by a different audit firm, he would still keep her, thus he would be willing to change audit firm. Moreover, Jacobsson states there is a chance that he would have not chosen audit had he not been so satisfied with the performance of his current auditor. Olsson adds that if his current auditor would sign off his assignment, he is not sure he would thereby appoint a new one. He does not believe it would be an obvious choice when it is not obligated. Olsson adds that in case his current auditor would recommend another auditor, in the case of signing off the assignment, he might appoint that person. Respondent A lastly mentions that the personal interaction is worth a great deal.

5.6 Choice of Audit Firm

Rossing states that his company R.A.K. Arkitektur & Planering AB has had the same auditor since the purchase of the company in 2007. The auditor comes from the audit firm Synneby, which is not one of the big four audit firms in Sweden. Rossing had hired this auditor previously; since the early 1990's and is of the opinion the auditor has done a great job. The reason for hiring the current audit firm is partly because of tradition, as well as a good reputation and the fact that Rossing believes they are competent.

Jacobsson has had contact with his auditor since 1992, and he hired her to Experience African Adventure and Hunt Aktiebolag since the purchase of the company three years ago. The reason for this was previous good experience of the auditor. The audit firm is BDO which is not one of the big four.

Olsson hires his company's auditor from Jörgensens Revisionsbyrå, which is a small audit firm. He has hired the auditor since the start of the company in 1996. Olsson has not experienced any problems with the cooperation, which is the reason he chose the same auditor starting his current company Going Places AB.

Nydéus states that his company Koffitea AB is at the moment in the process of changing audit firms, from Öhrlings (PwC), which is one of the big four audit firms, to Hjuviks Revisionsbyrå, a smaller audit firm. After changing to the new audit firm, Koffitea AB will no longer have audit, and will only be buying accounting services and other consulting services. The reason for hiring the first auditor from Öhrlings was that Nydéus had previous experience as well as family connections of the auditor and trusted him and his work. The new audit firm was hired due to a wish to gain better control over the company's finances and in order to have a sounding board in financial question, as well as an audit firm that has the time for continuous communication. With the new audit firm, Nydéus experience is that these demands are fulfilled.

Respondent A has had the same auditor since the establishment of the company in 2000 and the auditor comes from one of the big four audit firms. Respondent A thinks it could have been almost any audit firm, but that the current one was chosen because the respondent has had a previous employment there.

5.7 Audit in the Long Term

Rossing believes that he will keep the auditor of his company for the time being (at least for five years). He has never, in any of his previous companies, had any negative experiences related to audit, and he cannot think of anything that would make him dismiss his auditor, at this point.

Also Jacobsson says he is going to keep his auditor as long as the auditor continues to do a good job. He has had negative experiences from audit in the past in a different company, but declares that, at that point, the recent auditor was not involved. He cannot come up with any reasons for dismissing the current auditor.

Olsson is on the same track as the previous respondents, saying that he will keep his auditor for the time being, and has no intention to dismiss or change the auditor. He has never had any negative experiences from audit. The only reason that would make him dismiss the auditor would be if the auditor abuses his trust or misleads him.

Nydéus and his co-owners are, as mentioned, already in the process of dismissing the current auditor. Nydéus does not have any negative experiences connected to audit previously, except that he believes that everything is more complex than it used to be. On the question “Is there any event that would cause you to dismiss the auditor?” he says that the control issue could be a reason. By this Nydéus means he and the other shareholders wish to have control over the numbers and the company and they did not need the previous auditor for that purpose. Their experience is they receive more help now (with the new audit firm) than earlier. He thinks that that having the annual report audited, and an audit report written, does not add value to the company.

Respondent A, as stated earlier, will not keep the auditor any longer since it is not believed to be needed for the company. Further, Respondent A states that it can never be negative having an auditor. However, Respondent A states, if you never see your appointed auditor it becomes an unnecessary cost (for instance, in case it is the external accountant that the company consults for financial questions).

6. Analysis

The following section contains the analysis of the empirical data collection put in relation to the consulted theories and literature, described previously. The structure is the same as in the previous section, in order to easily see the correlation between the empirical findings and the analysis. When a scale occurs in the answers of the respondents, one equals “not at all correct” and five “completely correct”.

6.1 Ownership Structure

As stated in the previous chapter, only Rossing’s company has owners and board within the same family. In Nydéus’s company the owners and board members are friends. In the other companies none of those situations occur. Jacobsson is the majority owner but the only person on the board of the company. The remaining two respondents, Olsson and Respondent A, are single owners, as well as board members.

Collis (2003, 2004 and 2012) states, in all of her scientific articles, that choosing audit is more likely if the company is not wholly family-owned. Carey et al. (2000) found audit increases due to increase of the proportion of nonfamily management and nonfamily board of directors. The main reason behind the choice of audit under the mentioned circumstances is to reduce information asymmetry, as well as a chance for principal to control the agent, as stated in the Principal-Agency Theory. These findings are to some extent applicable on our study where two of the five companies are not family-owned. Especially Nydéus, a non-family owned company, mentioned audit as a facilitating aspect for trust among the shareholders. This is in line with Collis (2003, 2004, 2012), Carey et al. (2000) and the Principal-Agency Theory. Dividing of powers between stakeholders is something prominent in the Principal-Agency Theory. Nydéus graded the factor of information asymmetry between the management and board of the company to a 3/5, whereas the rest of the respondents graded this factor to 1/5. In Nydéus case the audit serves as a separation of power between owners and board members. Separation of power between stakeholders in a company is something that also Johansson et al. (2005) mention as a purpose of audit.

6.2 Internal or External Accounting

It can be established that all companies interviewed but Respondent A and Jacobsson, hire external accounting. All of the respondents have chosen voluntary audit. This could be explained by the Principal-Agency Theory. Our interpretation of the Principal-Agency model is that in our study, the external accountant can be looked upon as being the agent, whereas the owner as the principal. In this way the Principal-Agency Theory can be used to partly explain why our studied companies have chosen audit. Moreover, Niemi et al. (2002) mentions that outsourcing of the accountant function increases the demand for voluntary audit. In regard to the studied companies it could be said the fact three out of five companies

outsource their accounting and might then be affected by this in their decision of voluntary audit. On the other hand the importance of external audit as a factor in choosing audit only had an average of 2.4/5 in our study. This implies the external accounting is not a major reason for audit among our respondent.

Only Respondent A has a university degree in business administration. A low degree of education within business administration/accounting increases the likelihood behind voluntary audit according to Collis (2003). This corresponds to our found results among the interviewed companies. Respondent A, the one respondent with a university degree in business administration, explained that they are going to dismiss the auditor in the future, in line with Collis.

6.3 Stakeholders of the Financial Information

Stakeholders of the financial information, mentioned by the respondents, were the bank, competitors, customers, landlord, family, friends, The Legal, Financial and Administrative Services Agency and The Swedish Tax Agency. The most frequently mentioned ones were the bank and The Swedish Tax Agency, even though three out of the five respondents (Rossing, Olsson and Respondet A) answered no one asks to read their financial reports. However, it should be mentioned Swedish incorporated companies are obliged to send their annual reports to the Swedish Companies Registration Office, hence the annual reports are available to the public. Not all of the mentioned stakeholders, mentioned by the respondents, fall within the Stakeholder Theory.

Figure 10. Comparison of Stakeholders

Stakeholders in the Stakeholder Theory

- Employees
- **Customers**
- Suppliers
- **Government agencies**
- Shareholders
- **Banks/lenders**
- **Competitors**
- Protest groups
- Trade associations
- Unions
- Public interest groups

Stakeholders Mentioned by the Respondents

- **The bank**
- **Competitors**
- **Customers**
- Landlord
- Family
- Friends
- **The Legal, Financial and Administrative Services Agency**
- **The Swedish Tax Agency**

The two tables show a comparison between the stakeholders mentioned in the Stakeholder Theory (Freeman & Reed 1983) and the stakeholders mentioned by the respondents. The stakeholders in bold are mentioned in both tables.

On the question about whether the audit sends positive signals to credit givers the average grade was 3.2/5. However, on the question whether the bank demanded audited reports the average was 1.8/5. Despite all of the above mentioned stakeholders, it was clearly not due to the interests of stakeholders the interviewed companies chose audit. Instead, the respondents stated other major reasons behind their decision of voluntary audit, which will be further analyzed in the following sections.

6.4 Reasons for Voluntary Audit

In the analysis of the reasons for voluntary audit, Figure 11 illustrates a comparison of three tables. These consist of: Firstly, the free answers by the respondents (figure 11.1), secondly the most frequently mentioned reasons in the studied scientific articles (figure 11.2), and lastly, those reasons found in the scientific articles which correctness were graded the highest by the respondents (figure 11.3). The statements in bold occur in both the articles and in the companies' answers.

Figure 11. Most Significant Reasons for Voluntary Audit

Figure 11.1 Free Answers by the Respondents

- | | |
|-----------------------------------------------------------|--------------------------------------------------------|
| · Legal requirement from the beginning | · “Like an insurance”, |
| · Habit | · Personal relationship/the personality of the auditor |
| · Feeling of security | · Available to get in touch with |
| · Correctness/quality of financial information | · Previous experience of the auditor/Recommendation |
| · Sounding board | · Saves time |
| · Coach | · Practical |
| · Auditor knows the company well | · Gives good impression to the Swedish Tax Agency |
| · The auditor helps us with follow-ups on performance | · The auditor possesses specialist knowledge |
| · Helps the owner focus on their core business/competence | |

Figure 11.2 The Articles

- **Increases the quality of the financial information**
- To increase credit ratings
- Increases with turnover
- Assurance that the accounting records and systems are correct
- Not wholly family-owned
- Increases with size
- **Check on the internal controls**

Figure 11.3 Highest Graded by the Respondents

- Increases the credibility of the financial information (4/5)
- **Increases the quality of the financial information (3.8/5)**
- Helps us check that the financial information is correct (3.4/5)
- **It assures us of our internal control system (3.4/5)**
- We lacked in knowledge in accounting and financial reports (3.2/5)
- To send a positive message to credit givers (3.2/5)
- Out of tradition and/or habit (3.2/5)

A comparison of mentioned reasons for voluntary audit A complete table of reasons from figure 11.2 and 11.3 can be found in Appendix 3 and 4.

As seen in the figure above, the respondents' free answers about their decision for voluntary audit differs from what the scientific articles state. Some reasons occurred in both, for example that the quality increases and that the decision was made because of habit, but the respondents mentioned several more reasons. Further, the respondents did not have only one answer to the question, there were many things that played a role in their decision. This implies there could be as many reasons as there are small companies, since the answers are subjective.

Additionally, from the figure above it is clear there is one common reason for voluntary audit from what the respondents answered freely, what reasons was most frequently mentioned in the articles and what statement the respondents graded the highest: The audit helps increasing the quality of the financial information.

6.4.1 Quality and Correctness

Rossing and Jacobsson mentioned that the audit profits as an assurance of the financial information being correct. Further, Jacobsson and Olsson declared the audit contributes with a feeling of security about the accounting and financial statements. Nydéus stated the fact that the audit firm of choice was one of the big four meant a security label. Moreover, Jacobsson mentioned audit can contribute with a serious impression of the company. The quality of the financial reports is mentioned as an aspect behind voluntary audit in Collis (2003), Collis et al. (2004), and Niemi et al. (2012). This indicates that in Sweden, and apparently other European countries, the quality factor serves as a significant determinant behind voluntary audit. In agreement with our empirical results Collis (2003 and 2012) mentions the aspect of assurance and/or check on accounting records as a motive behind the choice of audit. The feeling of security and comfort in the financial reports is said to be the actual "product" of

audit, according to Johansson et al. (2005). This is in alignment with the empirical results mentioned.

6.4.2 Regulative Reasons

Jacobsson mentioned an industry specific reason for the choice of audit. More specifically, the fact that The Legal, Financial and Administrative Services Agency demands travel agencies to have audit. Respondent A mentioned that a former legal requirement (also industry specific) lay behind the choice of audit. However, this requirement no longer existed at the time of the interview. The answers mentioned by the respondents can be applied to Scott (2008), who uses a table to illustrate the three pillars of institutionalism. One is the regulative pillar, where the basis of order is regulative rules.

6.4.3 Internal Control

It was stated by Nydéus that the auditor increases the feeling of trust between the shareholders and board members, as a neutral opinion and check on the finances. Johansson et al. (2005) claim that audit can serve as division of power between different shareholders within the company. This seems relevant relating to the trust factor between the shareholders and board members in the company mentioned. In Koffitea AB, where the three owners also run the company together, the Principal-Agency Theory can be applied, presuming the three owners serve as both principal and agents, respectively. Since the power should be equally divided, a risk that one or more of the shareholders would act in private interest might be forthcoming. Here audit could serve as a security, according to the Principal-Agency Theory.

6.4.4 Time-saving, Specialist Knowledge

The time-saving factor of audit, and spin-off services performed by the audit firm, were mentioned by Rossing as an important reason for his decision of having an auditor. Moreover, he declared the auditor possesses valuable specialist knowledge. Olsson answered that his opinion was that, as a company manager, one should focus on the core business and outsource other areas, such as accounting.

It seems many respondents look not only to the audit when speaking of its advantages, but to spin-off services and other opportunities for feedback and communication from the auditor and audit firm. It can be questioned whether it is reasonable audit really saves time. One could argue it would rather quite likely imply preparation of material to the auditor, which could be time consuming. One conclusion that could be drawn is that it is not the audit specifically that the respondents perceive as time saving, but the accounting and spin-off services performed by the audit firm. This could also be a factor behind the fact that Nydéus was dissatisfied with the cooperation with one of the big audit firms, e.g. the fact these firms simply do the audit and do not focus as much on communication, and availability for the smaller clients. Between the small owner-led companies and the big audit firms the expectation gap (Johansson 2005) seems to be existent.

6.4.5 Stakeholders

Rossing and Respondent A answered the unstructured question of reasons for voluntary audit by saying that audited financial reports give a good impression to The Swedish Tax Agency. The Stakeholder Theory means companies need to act in line with the interest of their

stakeholders, in order to be successful in the long term. The Swedish Tax Agency can be said to be an important stakeholder, hence the Swedish accounting regulations are tied to the regulations of taxation. The Swedish Tax Agency also has a strong role in society. The same can be said about the bank as a stakeholder mentioned by the respondents. Although, none respondents had any significant external financing which is why we do not consider this stakeholder as central in the empirical findings.

6.4.6 Tradition and Habit

Tradition and habit were mentioned by Jacobsson as reasons for voluntary audit, as the answer to the unstructured question. However, on the structured question where the respondents were asked to grade reasons for their decision of voluntary audit, the tradition and habit alternative was graded 3.2/5 in average. Tradition and habit were also mentioned by Collis (2012), as a reason for voluntary audit. Scott (2008) proposes that human behavior is shaped by convention, routines and habits as a central question in the Theory of Institutionalism. Moreover, Peters (2005) states that the structures of a system determine its future development. Peters also declares that the old institutionalism presumes historical events impact the reality of today, as well as the existence of long term patterns. Furthermore, Peters mentions in the new institutionalism, peoples' decisions are said to be influenced by institutional attachments among the individuals. It is reasonable to believe the respondents institutional attachments and backgrounds have served as at least some part of the reason for choosing audit.

6.4.7 Sounding Board

It can be stated that Jacobsson and Olsson replied that they use the auditor as a sounding board in financial and accounting related questions. This can be applied to Johansson et al. (2005), where the significance of the personal role of the auditor is pointed out.

6.4.8 Trust and Personal Relationship

It was said by Rossing that he trusted his auditor. This was said to be one of the three most important determinants for voluntary audit. Further, Olsson said he can ask his auditor about anything, even regarding personal financial questions. It is clear the personal relationship and communication are two prominent elements behind the choice of keeping an auditor in the company despite of the abolishment. Johansson et al. (2005) state likewise that being an auditor is significantly about interacting with the client and handling relationships.

6.5 The Value and Role of the Auditor

All respondents but Nyd us seemed to find great value in the auditor. Nyd us, who was not satisfied with the auditor, finds it more relevant to hire a smaller accounting and audit firm. However, in the new firm, some of the roles of the auditor remain, even though the company is going to disclaim the actual audit. Jacobsson and Olsson stress that they find a significant value in their auditors.

The question of the value and role of the auditor is closely connected to the question of reasons for voluntary audit. Consequently, some of the stated values of the auditor, mentioned by the respondents are already mentioned in chapter 6.4, and thereby excluded in this chapter.

6.5.1 The Multi-dimensional Role of the Auditor

Jacobsson and Olsson point out the availability as an important value of their auditor. They emphasize the fact that they can call the auditor anytime and that they are easy to get in touch with. Olsson further states he can ask the auditor about a wide range of financial questions, even if they are not directly connected to the core business. These perspectives can be said to be aligned with Johansson et al. (2005) regarding the emphasis on the personal relationship between the auditor and the company and the significance of trust.

6.5.2 Networking

The aspect of the auditor contributing to networking for the company was mentioned by Rossing and Olsson. Examples stated were client events arranged by the audit firm and the fact that the auditors have large networks through their clients. Olsson thinks the auditor can even help passing on contacts that can lead to new cooperations and/or customers for the company. We could not find any theoretical material in our references that supports these findings. Nevertheless, it seems relevant in relation to the above mentioned importance of personal relationships and characteristics, that the opportunity for the companies to enlarge their network will be viewed as valuable.

6.5.3 Financial Counseling and Coaching

All five respondents mentioned counseling in financial questions as a value of the auditor. Again, it is clear that audit is not the only (or even the most prominent) value of the auditor, for the companies. The value of financial counseling and coaching was not pointed out in any of the studied resources. Nevertheless, it appears to be a major value perceived by the respondents.

6.5.4 Personal Qualities of the Auditor

Continuing on the subject of the personal qualities of the auditor, Jacobsson states that if the auditor would change employer, he would follow her to the new audit firm. This further emphasizes the before mentioned importance of the personal relationship between the auditor and the company. Jacobsson also said that if he had not been so content with the work of the current auditor, he might not still have an auditor appointed. Moreover, Olsson said that if the current auditor would give notice to leave, he is not sure he would hire a new one. Nyd eus stressed the fact that it is the auditor rather than the actual audit that contributes with value to the company. It is clear that the role of the auditor is a wider concept than the audit to the interviewed companies, and that the personal relationship is central, as said in Johansson et al. (2005).

6.6 Choice of Audit Firm

The majority of the respondents chose their current audit firm due to positive experiences of the auditor. Rossing, Jacobsson, Olsson and Nyd eus had worked with the auditor in previous employments or companies. Respondent A had worked for the current audit firm in the past.

In the Theory of Institutionalism, traditions, social norms and cultural reasons play an important role in people's decisions. This would be applicable on the decision of the

respondents, regarding previous experiences, and influence of tradition/habit in choosing audit firm and auditor.

Nydéus further stated that the auditor was chosen due to positive experiences within the family. Family traditions and/or culture can be seen as institutions, according to the Theory of Institutionalism, meaning decisions are made not on individual basis but as a result of the background of the decision maker.

Moreover, it can be said that Nydéus experienced an expectation gap with their auditor. He had, by the time for the interview, decided to dismiss the auditor due to difficulties to get in touch and communicate. Johansson et al. (2005) means that the expectation gap is smaller in owner-led companies because the relationship between the auditor and the company is more personal and a lot of focus lies on trust. This can be related to the situation of the mentioned respondent, who is choosing to substitute the former auditor for a smaller accounting firm. It is probable that the large audit firms (i.e. “The big four”) give higher priority to larger companies due to the proportion of their incomes. It seems small companies could avoid the expectation gap better hiring a smaller audit firm that has more time for personal communication.

6.7 Audit in the Long Term

The fact that the majority of the respondents foresee audit also in the future could be put in relation to the Theory of Institutionalism. Institutionalism claims that external factors affect decisions in the businesses and society such as legal requirements, social context and cultural aspects. A conclusion that could be drawn is that features of tradition could play a role in the decision of the respondents who wish to continue the collaboration with their auditors. Regarding the respondents who might dismiss their auditor due to lack of legal obligations, one could also apply to the Theory of Institutionalism, as mentioned earlier.

Johansson et al. (2005) point out the important aspect of the personal contact in the role of the auditor. This could be applied to Nydéus, who is going to dismiss the auditor for an external accountant, as mentioned above. Moreover, trust has been mentioned as a central factor by the respondents as to the choice of audit.

7. Conclusion

In the conclusion segment, the research questions of the current study are to be answered. Referring to the thesis aims, the conclusions are drawn from the conducted empirical study, the consulted theory and literature, as well as the analysis. Finally, suggestions to future research related to the topic of the thesis are outlined.

7.1 Audit Still Relevant

Post to the law change in November 2010, abolishing mandatory audit, little research has been done on its effects. Clearly, however, a large group of small business owners and managers are encountered with the new possibility of choosing or neglecting audit, respectively.

In this thesis the chosen aim was to investigate the reasons behind voluntary audit in Sweden, from the companies' perspective. Moreover, it was aimed upon to find out what the value of the auditor is, according to the companies.

The Confederation of Swedish Enterprise was clearly for the abolishment of voluntary audit, referring to for instance other European countries and cost-saving. Whether the purpose of the law change has been fulfilled is not to be answered in this thesis. However, it can be said a majority of small owner-led incorporated companies still have an auditor appointed.

When investigating the reasons behind voluntary audit it was clear that the studied companies, generally, had profound trust in their auditor, who they also valued highly. Apparently, there is still an important and demanded role for an auditor in the companies. Most interesting was, however, the reasons given by the interviewed companies as to why this is. The research questions of the thesis are answered below.

7.2 Why Do Small Private Owner-led Incorporated Companies in Sweden Voluntarily Choose Audit?

It is clear that there is not just one reason why Swedish companies choose voluntary audit. All of the respondents mentioned several reasons for their decision. Nevertheless, it is difficult to determine the strongest reason, as the respondents answered freely and their answers varied. Although, when looking at their answers regarding grading statements of why choosing audit, quality of the financial information was the highest graded statement. Quality was also mentioned in the scientific articles as well as in the respondents' free answers. Additional reasons mentioned by the respondents were: the auditor serving as a sounding board, that the personal relationship is good, and that the auditor possesses specialist knowledge. Nevertheless, it cannot be said that any specific reasons were major for this study's respondents, since they mentioned several more reasons for their decision.

When comparing this study to previous research, all the reasons for voluntary audit mentioned in the scientific articles could not be found in the empirical data collection. Even though some were stated, it was far from all reasons. However, more reasons for voluntary audit were found than the scientific articles stated. This implies that it is difficult, or even impossible, to say that some reasons are more important than others. It should be mentioned that scientific articles and the empirical data are not fully comparable as the articles contain international studies where the regulative and social contexts may differ. However, this study contributes to a wider understanding of why companies, in Sweden particularly, may choose voluntary audit.

7.3 What Value Does the Voluntary Chosen Auditor Add to the Companies?

Serving as an advisor, contributing with networking opportunities and being available to get in touch with, are examples of values that the respondents see in their auditor. Although, as stated in the previous section, we were not able to determine one specific value contributed by the auditor to the companies. Nevertheless, it can be established that the respondents who are satisfied with their auditor also find great value in the auditor.

We are confident to say that audit is not the only, or even the most prominent, value of the auditor, according to the companies. It is clear that the personal qualities of the auditor are of importance when deciding whether to keep the auditor or not. Consequently, as some respondents said, if it were not for the good personal relationship, they may not still have an auditor appointed today. As one respondent stated, it is the auditor rather than the audit that contributes with value to the company. It is clear that the role of the auditor is a wider concept than the audit to the interviewed companies.

7.4 The Multidimensional Role of the Auditor

Perhaps Burén and Nyqvist were right about the fact that audit itself is an unnecessary cost for the small companies, in relation to its value. The value and role of the audit, however, clearly exist for the companies who voluntarily choose audit today. The respondents of this study emphasize personal competence, trustworthiness, availability and the overall experience of the auditor.

It seems reasonable to believe that in a society where communication and constant availability becomes increasingly important, the mentioned qualities are central for the choice of appointing an auditor. Most prominently the auditor can contribute with value to the company, as long as he or she fulfils these demands, rather than just signing an audit report.

Regarding the consulted theoretical framework and other literature of the thesis, all of the studied theories were applicable to explain some parts of the empirical results. Clearly our respondents operate in a social context where they are affected by external factors, relating to the Theory of Institutionalism. It could be established that four out of five respondents hired external accounting, which corresponded to our interpretation of the Principal-Agency Theory. The Stakeholder Theory could be said to be applicable as the respondents mentioned several stakeholders of their companies. However, neither the Stakeholder Theory nor the

Principal-Agency Theory were found to be of great importance in the decision of voluntary audit. In Johansson et al.'s book we were able to find several similarities of the described situations regarding the role of the auditor and the perceived value by the clients.

The study conducted cannot be generalized due to the limited number of researched companies, but can serve as some indication to what reasons could be relevant for companies' decisions of choosing audit. It became clear throughout the research process that the role of the auditor, in the eyes of its clients, is far more multidimensional than those values and reasons connected to voluntary audit found in the consulted literature. In this way we are happy to be able to contribute with some new insight and a more balanced picture, through this thesis.

7.5 Future Research

During the process of compiling this thesis, thoughts about further research on the thesis topic have come across. One obvious suggestion is that a much larger sample of respondents can be used. One can conduct a quantitative study, to be able to make a more precise comparison with the scientific articles, and to facilitate comparison with other countries. A larger sample would also give a better material for generalizing the conclusion to all small companies in Sweden.

A question that arose during the analysis of the thesis was that it was that clear quality and correctness of the financial information were prominent reasons behind voluntary audit. It was also apparent that the personal relationship to the auditor and a good cooperation were important factors. Could these two reasons contradict one another? Could there be a risk the controls of the audit might be less strict, and thus imply lower quality, if the relationship between the auditor and client is too personal? This is a possible subject for future research.

Further, it would be interesting to make a similar study in the future to see if the viewpoint of the managers or business owners have changed, regarding voluntary audit. Has the number of companies choosing voluntary audit decreased or increased?

Another perspective that could be interesting is the perspective of the auditors, more specifically to see what their beliefs are regarding why small companies voluntarily choose audit, and then compare with the answers of the companies. Additionally, it would also be interesting to make a study regarding how the auditors view their role. Do the auditors and the business owners have the same view of the auditors' role?

One last suggestion for future research is to study small companies that have dismissed their auditor to investigate their views regarding why they have chosen not to have an auditor appointed. This research question could be put in contrast to and be compared with the current study.

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Appendices

Appendix 1

Definitions

External Accountant	An externally hired person who performs the company's financial accounting.
Legal, Financial and Administrative Services Agency	A Swedish public authority that has the purpose of assuring that the tax payers' money is used in an efficient and legally secure way. (Legal, Financial and Administrative Services Agency 2013)
Mandatory Audit	Audit in companies imposed by law.
Small Companies	Companies that fulfill two or less out of the following criteria: Turnover 3 million SEK, Balance sheet total 1.5 million SEK, Number of employees 3 (SOU 2008:32).
The Big Four	Audit firms known as The Big Four include PwC, KPMG, Deloitte and Ernst & Young.
The Swedish Companies Registration Office	The Swedish public authority for registration of incorporated companies, collection and registration of annual reports and the like (The Swedish Companies Registration Office 2012)
Voluntary Audit	Audit chosen by companies when not imposed by law.

Appendix 2

Interview Schedule

A: Administrative Questions

- A1) Company name:
- A2) Respondent name:
- A3) Title:
- A4) Shareholder in the company (yes/no):
- A5) Board member of the company (yes/no):

B: Classification Questions

- B1) Owner structure:
 - How many shareholders does the company have?
 - Are they within the same family?
 - Is the owner and management/board the same person?
- B2) Auditor:
 - Since when is the auditor appointed?
 - Which audit firm is the auditor from?
- B3) Financial accountant:
 - Is the financial accountant also a member of the board and/or owner of the company?
 - Does the financial accountant have a degree in business administration?
- B4) External Accounting:
 - Is there an external accounting consultant or does the company perform these tasks internally?
 - What kind of tasks does the accounting consultant do?
- B5) Stakeholders:
 - Which stakeholder read the financial information?
 - Who asks for the company's financial information?
- B6) Financing:
 - What kind of financing does the company have? External or internal?

C: Target Questions

- C1: Why has the company chosen to appoint an auditor? Answer freely.
- C2: Mention the three most important reasons why you choose audit?
- C3: On a scale between one and five, where one equals "not at all correct" and five equals "completely correct": Grade the following statements regarding your decision of choosing voluntary audit.

- The audit helps us check that the financial information is correct.
- The audit increases the quality of the financial information.
- The audit increases the credibility of the financial information.
- We chose audit because we lacked in knowledge in accounting and the financial reports.
- We chose audit because it was demanded by our owners.
- We chose audit because the management or board of the company is non-family – information asymmetry reigns and the audit serves as a control function.
- We chose audit because we have an external accountant – information asymmetry reigns and the audit serves as a control function.
- We chose audit because of our level of dept.
- We chose audit to send a positive message to credit givers.
- We chose audit because our turnover has increased.
- We chose audit because it assures us of our internal control system.
- We chose audit because the company is not wholly family-owned.
- We chose audit because we have increased in size.
- We chose audit out of tradition and/or habit.
- We chose audit because the owners are not involved in the daily business.
- We chose audit because we have or have had financial difficulties.
- We chose audit because it was demanded by our banks/credit givers.
- We chose audit because it was demanded by other stakeholders.
 - If so, who where those stakeholders?
- We chose audit because our accounting consultant advised us to do so.

C4: What value do you believe the auditor contribute with to the company?

C5: Besides the audit, what do you think the auditor contributes with?

C6: On a scale between one and five, where one equals “not at all correct” and five equals “completely correct”: Grade the following statements regarding your decision of what the auditor contributes with to the company.

- The auditor helps increase our credibility.
- We use the auditor as a sounding board in financial questions.
- The auditor helps us with questions about laws and regulations regarding accounting.
- The auditor makes us feel better/more secure about our accounting.

C7: How much do you pay for audit each year?

C8: On a scale between one and five, where one is very low, three is reasonable and five is very high, what is your opinion of the price of the audit?

C9: Is your opinion that the advantages of the audit exceed the cost?

C10: For what reasons did you choose to hire your audit firm?

C11: Do you purchase any other services from your audit firm? If yes, what other services?

C12: Do you think you will keep the company’s auditor in the future and if so, for how long?

C13: Is there any event that would cause you to dismiss the auditor? Motivate.

C14: What advantages do you think the fact that the company has an auditor gives you? Mention at least three.

C15: Have you had any negative experiences of audit? Motivate.

Appendix 3

Abstract of reasons mentioned in scientific articles

Reason for Voluntary Audit	Mentioned in Number of Articles
Non-family management/board	1
Level of debt	1
Increase credit ratings	3
Message to credit givers	1
Increases with turnover	2
Assurance that the accounting records and systems are correct	2
Increases the quality of the financial information	3
Not wholly family-owned	2
External shareholders without access to financial information	1
Company gives a copy of their financial information to the bank or other lenders	1
Increases with size	2
Check on the internal controls	2
Advice from external accountant	1
Demand from existing investors	1
Perceived demand from lenders	1
Shareholders who are not involved in the daily business	1
Tradition and habit	1
Accounting outsourcing	1
Financial difficulties	1
External financing	1

Appendix 4

Abstract of how well the respondents agree to statements regarding the choice of voluntary audit. Scale: 1 = not at all correct/not relevant and 5 = completely correct

Statement	Rossing	Jacobsson	Olsson	Nydéus	Respondent A, in general	Average
The audit helps us check that the financial information is correct.	4	4	3	3	3	3.4
The audit increases the quality of the financial information.	4	4	4	4	3	3.8
The audit increases the credibility of the financial information.	4	5	4	4	3	4
We chose audit because we lacked in knowledge in accounting and the financial reports.	3	1	5	4	3	3.2
We chose audit because it was demanded by our owners.	1	1	2	1	1	1.2
We chose audit because the management or board of the company is non-family – information asymmetry reigns and the audit serves as a control function.	1	1	1	3	1	1.4
We chose audit because we have an external accountant – information asymmetry reigns and the audit serves as a control function.	4	1	2	3	2	2.4
We chose audit because of our level of dept.	1	1	1	4	1	1.6
We chose audit to send a positive message to credit givers.	1	5	3	4	3	3.2
We chose audit because our turnover has increased.	1	1	3	3	5	2.6
We chose audit because it assures us of our internal control	1	4	3	4	5	3.4

system.						
We chose audit because the company is not wholly family-owned.	1	1	1	3	1	1.4
We chose audit because we have increased in size.	1	1	1	3	4	2
We chose audit out of tradition and/or habit.	3	3	4	4	2	3.2
We chose audit because the owners are not involved in the daily business.	1	1	1	1	1	1
We chose audit because we have or have had financial difficulties.	1	1	1	3	3	1.8
We chose audit because it was demanded by our banks/credit givers.	1	1	1	1	5	1.8
We chose audit because it was demanded by other stakeholders.	1	3	1	1	4	2
- If so, who where those stakeholders?		Legal, Financial and Administrative Services Agency			Bank	
We chose audit because our accounting consultant advised us to do so.	1	1	2	1	1	1.2

Appendix 5

Abstract of how well the respondents agree to statements regarding what the auditor contributes with to the company. Scale: 1 = not at all correct/not relevant and 5 = completely correct.

Statement	Rossing	Jacobsson	Olsson	Nydéus	Respondent A, in general	Average
The auditor helps increasing our credibility.	4	4	3	2	5	3.6
We use the auditor as a sounding board in financial questions.	4	5	3	5	5	4.4
The auditor helps us with questions about laws and regulations regarding accounting.	4	4	5	4	5	4.4
The auditor makes us feel better/more secure about our accounting.	3	3	5	5	5	4.2