The audit expectations gap in Sweden

- The effect of the media coverage on confidence in the audit profession

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Abstract

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Five key words Audit expectations gap, audit independence, confidence, role of the auditor, criticism

Purpose The purpose of this thesis is to examine the audit expectations gap in Sweden and the public confidence in the audit profession. We analysed if and how Svenska Dagbladet's critical articles about the audit profession affected both the public confidence and the audit expectations gap. In addition, we present suggestions on how to decrease the audit expectations gap and how to enhance public confidence in the audit profession.

Methodology In order to answer our purpose we have used qualitative research methods consisting of primary data in form of interviews as well as secondary data.

Theoretical perspectives The theoretical framework used in the thesis covers the role of the auditor, expert systems, audit independence and audit expectations gap.

Empirical foundation The empirical foundation consists of interviews and in addition, we have used secondary interviews and documents.

Conclusions No crisis of confidence exists in the Swedish audit profession, however an audit expectations gap does exist. It is desirable to enhance the public confidence and try to decrease the gap. The critical articles in Svenska Dagbladet do not seem to have affected the audit expectations gap and the public confidence.
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1. Introduction

In this section, an introduction to the subject will be presented in form of both a review of Svenska Dagbladet’s articles about the criticism towards the audit profession and a historical review of the audit expectations gap in Sweden. Further on, a problem discussion will be held and finally, the purpose and problem statement together with delimitations are stated.

After the fall of the American company Enron and the audit firm Arthur Andersen in 2001, debates about auditors and their independence arose (Stirbu, Moraru, Popa, Farcane and Blidisel, 2010). In Sweden the debates were quiet for a couple of years until the Swedish newspaper Svenska Dagbladet (SvD) and the Minister of Financial Markets, Peter Norman, in the era of the last financial crisis started the debate once again. According to Bursell and Neurath (2010), journalists at SvD, it was primarily the crises in the both banks Carnegie Investment Bank and HQ Bank that gave rise to the old discussion. Norman claims that the problems that arose in these companies indicate that there is an existing problem with the quality of audit performance. (Bursell and Neurath 2010; 1)

1.1. Main criticism of the audit profession according to Svenska Dagbladet

In the end of 2010, Svenska Dagbladet (SvD) published a series of articles about auditors and the audit profession. SvD’s award winning series got the public aware of a number of somewhat questionable actions within the audit profession (Andén, 2011). The newspaper received a lot of response to the articles, especially entrepreneurs claiming that they have no idea what their auditors do to be able to charge such high fees (Bursell and Neurath 2010; 2). The main areas for the criticism were the control and supervision of auditors, that audit firms offer and perform both non-audit services and audits in the same companies, the high compensation of auditors and the high number of audits by the CEOs of The Big Four, i.e. Deloitte, Ernst & Young, KPMG and PwC.

Bursell and Neurath (2010) criticised in SvD the supervision and control of auditors. They questioned the fact that a number of the inspectors at Revisorsnämnden (RN), the Swedish Supervisory Board of Public Accountants, have a past in The Big Four and according to SvD there exists acquaintanceship between The Big Four and the authority. (Bursell and Neurath 2010; 3) In Sweden, RN is the responsible authority for audits and auditors. The two main responsibilities of RN are to ensure that there are enough qualified auditors to cover the need of the market and to supervise these auditors. In addition, RN controls that the audits maintain high quality and can deliver sanctions if the auditors have omitted their responsibilities (www.revisorsnämnden.se; 1) Moreover, the authority shall maintain the confidence that the public have in the audit profession and hear received complaints on auditors. The supervision is divided into two parts which are controls made on own initiative and
continuous controls where the latter only concerns audits of listed companies. Continuous controls on audits of other companies are performed by Far. (www.revisorsnamnden.se; 2) Far is the trade organization for auditors and advisors with about 6 500 working members within the audit, advisory and tax profession. They aim to develop the profession by giving clear guidelines, issue recommendations and offer education. (www.far.se; 1) Their basic standpoint is the needs of their members, as stated in their vision (www.far.se; 2). To guarantee the market that auditors and audit firms maintain high quality and follow the ethical guidelines, Far performs quality controls of their members. The controls should be performed in accordance with the EG-recommendations about quality assurance. (www.far.se; 3) Bursell and Neurath (2010) criticised in SvD the fact that eight out of the 14 members of the board of directors at Far, are active auditors at The Big Four audit firms. As a consequence, it might harm the objectivity of the members of the board at Far. (Bursell and Neurath 2010; 3)

According to the law, all companies in Sweden, except the smallest, are obliged to have their financial statements audited (ABL, 2005). It is The Big Four which are the market leaders in Sweden and they audit 90 percent of the companies listed on the Nordic OMX Stockholm stock exchange and every other unlisted company. Despite the fact that The Big Four have such a large number of assignments, it is very rare that they get sanctioned by RN. As an example, during the last five years and 750 000 audits, only two auditors from one of The Big Four audit firms lost their certification. (Bursell and Neurath 2010; 4) In contrast, 21 auditors from smaller audit firms lost their certification. According to Peter Strömberg at RN, this could be an effect of The Big Four having better internal controls than the smaller audit firms. (Bursell and Neurath 2010; 3)

The second part of the main criticism has been based on the fact that audit firms offer and perform both non-audit services and audits in the same companies. This was the case with Enron and Arthur Andersen and was a contributing factor to the fall of the audit firm. (Bursell and Neurath 2010; 5) It was also the case of HQ Bank and their auditor KPMG. Critics claim that it is hard to get an objective audit when the auditors have to audit the work of their own colleagues. (Bursell and Neurath 2010; 6)

Another area that gave rise to reactions from the public due to the articles of SvD was the fact that auditors can receive very high compensation. The auditors of the largest listed companies could have up to about 10 million Swedish crowns in compensation per year, which is often more than the compensations of the CEOs of the audited companies. In addition, the auditors get high bonus allocations from the audit firm. (Bursell and Neurath 2010; 4) When an auditor is offered a position as a partner, it is possible to buy a stock share for bargain prices since there is no market price on
these shares. However, the partners can still get high dividends per share (Bursell and Neurath, 2010; 7). Moreover, by applying the regulation on close companies, the partners only pay twenty percent in tax on large parts of their income. According to the Swedish tax regulation, the more the audit firms pay in salaries to their employees, the bigger part of the dividend can be treated by the partners as income of capital which, by applying the close company rules, only has twenty percent in tax. (Bursell and Neurath 2010; 8)

Finally, the journalists at SvD revealed that both the CEOs and the chairmen of the boards of the audit firms had time to, beyond their ordinary assignments, audit a large number of companies (Bursell and Neurath 2010; 9). It has been denied by both RN and Far that a large number of audit assignments would decrease the quality of the audit. However, a new research report made by Sundgren and Svanström (2010), showed that a large number of audit assignments do impair the audit quality in going concern issues. The research focused on the number of audit assignments with remarks regarding the continuation of the company and came to the conclusion that there is a connection. Even if this only is one part of the audit, it was claimed that it still was an indication that the quality would decrease due to a higher number of audit assignments. (Bursell and Neurath 2010; 10)

In the end of 2010, Peter Norman, Far and The Big Four had a meeting to discuss what actions have to be made to increase the quality of audits and to ensure the confidence in the profession. Norman states that the audit profession is of major importance for the financial markets and the business environment and thus the confidence in the profession is vital. (Bursell and Neurath 2010; 11) During the meeting the participants agreed that The Big Four was to come up with interventions in a near future (Bursell and Neurath 2010; 12). Main areas that were to be considered were the sometimes extreme salaries, performance of both audit and consulting services to one company and the fact that the CEOs perform a large number of audits. Moreover, the supervision that exists in the profession might be considered since its critics claim that it does not work in its current form. (Bursell and Neurath 2010; 13)

1.2. Audit expectations gap in Sweden

Looking at external audit from a historical perspective, a cyclical phenomenon can be discovered that the profession is exposed to criticism from the public whenever there are financial crises or financial scandals (Dobrotéanu et al., 2009). The criticism against the audit profession in Sweden increased in the era of the financial crisis and the crises within Carnegie and HQ Bank, which inspired the journalists at SvD (Bursell and Neurath, 2010; 1) We have reviewed the articles in SvD and there seems to be a crisis of confidence as well as a difference in Sweden between what the society
expects auditors to achieve and how the society perceives the performance of auditors. The latter could be described as an audit expectations gap (Porter, 1993) and this will be in focus throughout the thesis. The concept will be described more in depth later on.

Discussions about the audit expectations gap have existed for a long time and in Sweden they have been published for almost 30 years in Balans, a trade journal issued by Far. In 1982, the journal published an article written by Ulf Gometz containing a discussion about the audit expectations gap. The article stated that two main reasons for the gap are firstly the misunderstanding of the role of the auditor and secondly the different opinions about what the auditor’s role should be. However, it was found that the gap mostly existed due to the first explanation, i.e. misunderstandings about the auditor’s role. People expect the auditors to perform tasks that are not within their responsibilities and the audit expectations gap resulting from this is hard to decrease. (Gometz, 1982) In 1992, Strandin stated in Balans that auditors needed to be clearer towards their clients when describing what the audit contains, otherwise the gap would grow and one factor showing the growth was the increase of written complaints of auditors to RN. (Strandin, 1992) In 1993, Lövgren claimed that the requirement stakeholders have on a justifiable audit has to be met, otherwise the risk for an enlarged audit expectations gap would increase. Thus, it is necessary that the audit firms have internal quality controls and according to Lövgren (1993), it would be preferable for listed companies to have an audit committee. This committee would help with descriptions of the operation, risks etcetera to facilitate an objective audit. The audit expectations gap that might arise has to be diminished by improvements of the audit procedures together with improved information to the public about audits. To inform the public is essential since they might have unrealistic demands of the audits. (Lövgren, 1993) During a seminar at Far in 1995, it was expressed that the focus has shifted from independence towards the more substantial threats to auditors’ objectivity and corresponding solutions. In addition, discussions were held whether consulting services could have an impact on auditors’ independence and objectivity. However, the participants at the seminar did not think this was an issue of great concern. Moreover, they argued that too much discussions and theorisation about independence would have the opposite effect and lead to an ever greater expectation gap. According to the participants, it would be desirable that auditors should act without too detailed rules and frameworks, and instead let the market decide. (Revisorerna i Europa, 1995) Stefan Holmström, auditor and board member at KPMG stated that more sophisticated audit could increase the audit expectations gap instead of decreasing it. Companies might expect the auditor to audit all details when they in fact focus on materiality. One explanation for this gap according to Holmström might be that the audit profession has not communicated this to the client companies. If stakeholders wish and require more audit, they should have better opportunities to influence the
content of the audit. (Wennberg, 2002) Our review of the articles in Balans shows that an audit expectations gap has existed for a long period of time and the audit profession and researchers have presented an untold number of suggestions on how to close the gap.

1.3. Problem discussion

The articles by Svenska Dagbladet (SvD) published in the end of 2010 indicate that the public may have a different view of the role of auditors compared to the auditors themselves. The public may have unreasonable expectations of the audit function which might be impossible for the auditor to fulfil. This might be a sign of the existence of an expectations gap between the auditors and the public. (Porter, 1993) Internationally, the media might be one contributing factor to these high expectations since they form the public opinion. They have a prominent role since the public in general have poor knowledge about the auditing profession. The impact of media tends to increase in the event of corporate scandals, which creates new public expectations and as a result the audit expectations gap tend to expand. (Lesage, Cohen, Ding and Stolowy, 2011) The fact that the number of litigations against auditors have increased the latest years is another indicator that an audit expectations gap exists. (Stirbu et al., 2010) Attempts have been made to bridge the audit expectations gap since it was first described, but no lasting solution has yet been presented. Even though the business environment as well as the audit profession has changed, the audit expectations gap has remained more or less the same over the years. (Humphrey, Moizer and Turley, 1992)

The articles in SvD received a lot of attention from the public and started a debate in Sweden about the audit profession and the public confidence. The public confidence in the profession is vital, both for the profession but also for the stability of the financial market (Stirbu et al., 2010). The stakeholders are dependent of the audit reports and are as a consequence in need of high quality audit performed by an objective and unbiased auditor (Warren and Azola, 2008). As a result, it is of great importance that the auditor is independent both in fact and in appearance (to be discussed later). If the public and the stakeholders at any time question the auditors’ independence, there is a risk that their confidence in the audit profession and the audit reports will decrease. This was the case in the Enron scandal and a contributing factor to why Enron’s auditor Arthur Andersen collapsed. The public place trust in expert systems (to be discussed later) such as the audit profession and it is vital that this trust is remained. When the public lost their confidence in Arthur Andersen, this resulted in that the stakeholders could not rely on the audit reports by Arthur Andersen and finally the audit firm collapsed. Several business failures under a short period of time in connection with broad media coverage of the subject may compromise the confidence the public place in the audit profession. (Unerman and O’Dwyer, 2003)
1.4. Purpose
The purpose of this thesis is to examine the audit expectations gap and the public confidence in the audit profession in Sweden. We analyse if and how Svenska Dagbladet’s articles have affected both the public confidence and the audit expectations gap. In addition, we present suggestions on how to decrease the audit expectations gap and how to enhance public confidence in the audit profession.

1.5. Problem statement
Audit expectations gap

Based on the discussion above, it seems to be a difference in Sweden between what the public expects the auditor to do and what the auditor in fact does.

- Is there an audit expectations gap in Sweden and if so, how can it be defined and explained?
- Have the articles in SvD affected the audit expectations gap in Sweden?
- How might the audit expectations gap in Sweden be reduced?

Public confidence

The articles by Svenska Dagbladet indicate that the audit profession in Sweden is exposed to a crisis of confidence.

- Is there such a crisis and if so; what is the nature of it?
- Is there a connection between the public confidence and the audit expectations gap and if so, what is the nature of it?
- What can be done to restore and enhance the public confidence?

1.6. Delimitations
We have chosen to focus on Sweden and the reason for this delimitation is due to the fact that we have based our thesis on the articles by Svenska Dagbladet about the review of the audit profession in Sweden. In addition, both interviewees are from Sweden and naturally, their perception of the subject will be biased towards the Swedish environment. Regarding the theoretical framework, we have delimited some parts to what is of relevance to the purpose of this thesis.

1.7. Disposition
The remainder of the thesis will have the following disposition. First, a theoretical framework is presented which includes all relevant concepts and theories for the purpose of this thesis and then the methodology used in the thesis is laid out. Further on, we present our empirical foundation
which consists of interviews and secondary data. Later, we will analyse the theoretical framework and the empirical foundation and finally, we will present our conclusions.
2. Theoretical framework

In the theoretical framework, relevant theories for the thesis will be presented and the chapter includes the role of the auditor, audit independence, expert systems and the audit expectations gap.

2.1. Role of the auditor

The role of external auditing is vital for the business environment especially since the market today is based on capitalism. To be able to ensure allocation of resources that are needed in a capitalist economy, the decision making process requires credible information about the operation of the companies. This information is usually obtained from the financial statements. (Stirbu et al., 2010)

The cornerstones of the audit profession are theoretical knowledge together with skills in financial and business matters (Perks, 1993. p. 6). The traditional and important role of external auditors is to assure confidence in (Dobroțeanu, Dobroțeanu and Ciolpan, 2009) and to lend credibility to the financial statements (Hayes, Dassen, Schilder and Wallage, 2005). This is considered to be a vital part in a capitalist economy where political stability and the wealth creation process heavily depend upon this confidence assured by the auditors (Sikka, Puxty, Willmott and Cooper, 1998). Financial crises and scandals reduce the confidence the public have in the audit process and instead give rise to a number of questions and criticism towards the profession (Dobroțeanu et al., 2009). The reduction in confidence is due to the common beliefs that the audited financial statements are a guarantee of the solvency, propriety and business viability of the companies to the companies’ stakeholders (Stirbu et al., 2010).

An audit provides credibility to the financial statements and should reduce the costs for the stakeholders since the risk for material misstatement is being reduced while assuring credibility to the financial reports. The auditor therefore has an important role in the financial market. Even though the auditors perform a correct audit it does not mean that all accounts that are audited are free from misstatements. Auditors provide reasonable assurance which means that overall, the financial report gives a true and fair view and does not contain any material misstatements in general. One criterion to receive a true and fair view is when the reports are in accordance with relevant framework for financial reporting. According to the European Commission (2010), it is crucial that auditors exercise professional scepticism while performing an audit. (European Commission, 2010) Auditors have an obligation to resist corrupt influences while performing an audit service and as a result of this obligation, the public expects the auditor to be trustworthy. The work of auditors is highly valued since different stakeholders such as creditors, investors and government, depend upon the reliability of the audit reports. (Warren and Alzola, 2008 & Hayes et al., 2005. p. 83)
From the perspective of the stakeholders, the assurance the auditor provides of components in the balance sheet should be of high level. According to the European Commission, it should be considered whether additional information that might be of interest to the public should be included in the audit report and by that communicated to the public. (European Commission, 2010) Audits are intended to be a safeguard for lenders, investors and others who have a business interest in the audited company. Even though auditors are paid by the audited companies their responsibility is to the stakeholders. This, together with the fact that audits are more or less statutory, creates a need for audit independence. (European Commission, 2010)

2.2. Audit independence

The lack of reliability in an audit report would result in a decreased ability to make correct decisions about entities. It is therefore vital that stakeholders are confident that the audit reports are reliable. To add credibility in the reports and to keep the public’s confidence, the auditors need to be independent from the company they are auditing. (Hayes et al., 2005. p. 83) Audit independence improves the quality and the effectiveness of companies’ financial reports, and additionally ensuring that the audit is performed objectively (Myring and Bloom, 2003). Moreover, the efficiencies that the audit independence creates contribute to the overall efficiency of the capital markets (Commission of the European Communities, 2003). Thus, the audit independence is one of the most important requirements that an auditor has (Hayes et al., 2005. p. 83). There are different definitions of audit independence and one is that in order to protect the stakeholders, the auditor has to avoid influence from the client. Another definition states that independence exists when the auditor is able to perform the audit in an objective manner, without influences that harm neither the professional judgment nor the integrity. Moreover, the independence could be defined as “a responsibility to act objectively and with competence and due care, imposed by law or professional bodies or occurred from the professional roles”. (Warren and Alzola, 2008. p. 43-44)

It is vital that auditors are independent both in fact and in appearance. Independence in fact means that the auditor acts independently, objectively and impartially, without being influenced and affected by circumstances that can harm the professional judgment and independence. Independence in appearance refers to whether others perceive the auditor as independent. (Hayes, 2005. p. 85)

The demand for common and more harmonized rules on independence of auditors and ethics standards have increased as the world is getting more globalized. IFAC (International Federation of Accountants) produces such standards and in 2008 their Code of ethics for professional accountants (The Code of ethics) was adopted by over one hundred standard setting organizations. (Allen and
Bunting, 2008) In Sweden, IFAC’s Code of ethics has been adopted in excess of Swedish regulations and recommendations. Such (Far, 2011; 1). The Code of ethics is principles based and gives guidance about independence to auditors. (Hayes et al., 2005. p. 85) Additionally, it contains safeguards that should be used to eliminate or reduce threats to audit independence that could occur in different circumstances (Allen and Bunting, 2008). The most central guidelines in the Code of ethics are the six fundamental principles; integrity, objectivity, professional competence and due care, confidentiality, professional behaviour and technical standards (Hayes et al., 2005. p. 76-77). Moreover, the EU has issued the Directive (2006/43/EC), which gives guidance on how auditors should act. Article 22 in this Directive contains principles on independence and objectivity which should be considered while performing an audit. (EP and The Council) This and other EU directives influence the standard setting in Sweden and the Swedish regulations on auditors is developed in cooperation with the EU and IFAC (Far, 2011; 1).

A basic requirement of auditors is independence; however, there are some threats that may impair this independence. The two most relevant threats for the purpose of this thesis are the self-interest threat and the familiarity threat. The self-interest threat is a conflict of interest and can occur if an auditor has a financial interest in the client that the auditor could benefit from. In addition, the self-interest threat could occur if the auditor has ownership in the client company and at the same time has an ability to influence the audit engagement. Loans and guarantees between the client and the auditor could also jeopardize the independence of the auditor if it is not made under normal terms and procedures. Other self-interest threats could be a concern of losing a client, large or unpaid fees, close business relationships with a client and potential employment within a client company. (Hayes et al., 2005. p. 87-88) The second threat is the familiarity threat and this occurs when someone within the audit team is becoming too concerned about the interest of the client due to a close relationship with someone in the client company (Hayes et al., 2005. p. 89).

In addition to audit services, consulting services have been added to the list of offered services of the audit firm to clients. Since the profit margin in consulting services generally is higher than in audit services, the focus changed to becoming more profit-oriented. (Wyatt, 2004) There have been, and still are, discussions about whether the increased offering of consulting services has had an impact of the audit independence. However, until the Enron scandal in 2001 there has not been any evidence that there existed any conflicts of interest. (Boyle, 2004. p. 388) Researches in the UK have pointed out that investors believe that if the audit firm is economically dependent of a client, both the independence in appearance and in fact can be threatened (Bolton, 2007). Auditors cannot have a conflict of interest to be able to be independent in both fact and appearance. Such conflict occurs
when other interests influence and interfere with the objectivity that an auditor should have. (Gaa in Boyle, 2004)

2.3. Expert systems

Most people live in a high complex world where interactions between expert systems and individuals are common (Unerman and O’Dwyer, 2003). Expert systems are defined as; “systems of technical accomplishment or professional expertise that organize large areas of the material and social environments in which we live today” (Giddens in Unerman and O’Dwyer, 2003, p. 974). It would be very rare for individuals to have knowledge and personal expertise in more than just a few of the expert systems affecting the daily lives of the individuals. People therefore implicitly put trust in these expert systems, about which they do not have enough knowledge themselves. The trust is represented by the confidence people have in expert systems to be reliable and that the performance will be in accordance with technically correct principles. Most people additionally link risk to trust and believe that expert systems will reduce the risk to an acceptable level. As a non-expert becomes aware of or develop some knowledge about an expert system, the acceptable risk level might be increased.

Auditing and accounting can be classified as expert systems as, to create and evaluate the content of financial statements, they rely on technical expertise. Subjective judgments are required and extensively used in both accounting and audit systems. However, non-expert outsiders believe that the underlying data is objective and therefore they assume that the financial accounts produced by these systems are accurate. Financial accounts are used to form market expectations and are also an essential basis to distribute value and wealth between managers, investors and employees. The accounts will distribute the value regardless if investors are aware of the existence, practices or the influence of expert systems or not. A number of people can therefore be significantly affected by the products of expert systems regarding audit and accounting. It is usually not until people will be negatively affected by the expert systems, or when the outcome does not live up to the expectations, as they start questioning the trust they have placed in the systems. Moreover, the trust can be diminished if the non-experts acceptable level of risk is infracted. This was the case with the audit firm Arthur Andersen in the Enron scandal, where people lost their trust in the audit reports of Arthur Andersen and this was one of the reasons for the audit firms collapse. As a consequence of this scandal, the consciousness among the non-experts increased at the same time as the trust that non-experts had in expert systems regarding accounting, auditing and the investment markets decreased. Thus, it is necessary and essential to maintain the trust that non-experts have in expert systems since audit and accounting impacts the capitalist market. Experts are in a wider extent aware
of shortcomings and limitations that can occur within the expert systems and therefore use different mechanisms to minimize the likelihood of failures. (Unerman and O’Dwyer, 2003)

2.4. Audit expectations gap

“For decades the accountancy profession has responded to the ‘credibility crisis’ by coining, reciting and hiding behind the phrase ‘audit expectation gap’.” (Stirbu et al., 2010, p. 912)

During the 1970’s and 1980’s the debates about the audit expectations gap increased (Humphrey, 1991) and during the 1990’s the number of debates and researches about the gap reached its peak. However, the audit expectations gap is still today of great concern to the audit profession (Lesage et al., 2011). The concern and the debates about the audit expectations gap have been further stimulated by major financial scandals over the years (Humphrey, 1991). Such scandals tend to affect the credibility of the audit process and the confidence in the audit profession (Dobroţeănul et al., 2009). In addition, corporate scandals create new expectations among the public (Lesage et al., 2011) and increase the number of litigations against the audit profession and this may be an indication of the existence of an audit expectations gap (Stirbu et al., 2010).

2.4.1. Definition

Several different definitions of the audit expectations gap exist, but the concept was first described by Liggio in 1974 as the gap in the level of expected auditor performance between the society and auditors themselves (Hassink, Bollen, Meuwissen and de Vries, 2009). In addition, it has been described as “the differences between what the public expects from an audit and what the auditing profession prefers the audit objectives to be” (Sikka et al., 1998). The audit expectations gap has also been studied by Humphrey (1991), who points out that the audit expectations gap has been described in different ways over the years. Some describe it as a role-perception gap, focusing on the role of the auditor and what can reasonably be expected. Others have described the audit expectations gap as an ignorance-gap, arguing that education of the audit clients will bridge the gap. Humphrey (1991) argues that many descriptions of the audit expectations gap are difficult to interpret as they are based on the word “reasonable” and in addition, they assume that only one absolute description of the audit function exists. As a result, Humphrey (1991, p. 7) describes the audit expectations gap in a more general way as “a representation of the feeling that auditors are performing in a manner at variance with the beliefs and desires of those for whose benefit the audit is being carried out”.

The concept was further developed by Porter (1993) who called it the audit expectation-performance gap and defined it as “the gap between society’s expectations of auditors and auditors’ performance, as perceived by society”. This definition is broader since it takes into account that auditors may not
achieve the expected performance from neither the society nor from the profession itself. For this reason, we prefer this definition and it is the one we have used throughout the thesis.

![Diagram of the audit expectation–performance gap](image)

**Figure 1.** Structure of the audit expectation–performance gap. Source: Porter (1993), p. 50

1 Duties defined by the law and professional standards.

2 Duties which are cost-beneficial for auditors to perform.

Porter divided the audit expectations gap into a *performance gap*, described as the gap between what society perceives auditors to achieve and what they reasonably can expect and a *reasonableness gap*, which can be described as society’s unreasonable expectations of auditors and is the gap between what can reasonably be expected and what society expects auditors to achieve, see Figure 1. The reasonably expected duties and performance of auditors is a cost-benefit trade off and the duties must be balanced in this trade off in order to be performed by auditors. The organisation which is subject to the audit will tend to limit the duties assigned to the auditor as a consequence of the costs. On the other hand, the users of the audit report will tend to increase the duties assigned to auditors as a consequence of benefit and thus tend to have unreasonable expectations. (Porter, 1993)

The performance gap can further be divided into deficient performance and deficient standards. *Deficient performance* is a gap between the society’s perceived performance of auditors and the expected standard of performance in respect of the existing duties of auditors. The other part, *deficient standards*, is the gap between the existing duties of auditors according to standards and laws and the duties which reasonably can be expected. According to the study by Porter (1993), half of the audit expectations gap exists due to deficient standards, 34 % due to the reasonableness gap and 16 % due to deficient performance. (Porter, 1993)

2.4.2. Contributing factors to the audit expectations gap

Different views exist of the reasons for the existence of the audit expectations gap. The audit profession tends to blame the unawareness and unreasonable expectations of the public and the
users for the existence of the gap. However, studies have shown that the audit profession itself may be the reason for the gap’s existence. (Lesage et al., 2011) Several factors describe what drives and causes this audit expectations gap and some of these contributing factors are the complicated nature of the audit function, conflicting role of auditors, retrospective evaluation of auditors’ performance, time lag in responding to changing expectations, unawareness and unreasonable expectations and auditors not being independent enough. (Lee and Azham, 2008 & Humphrey, 1991)

The audit function is of complicated nature as it is dynamic as the role of the auditor tends to evolve and change over time as a consequence of contextual factors such as socio-economic development, business failures and verdict of the courts. In addition, the nature of the audit function is further complicated by the subjective concepts used in audit reports, such as “true and fair view”, “reasonable” and “materiality”. As a result, the public may have a lack of understanding of how to interpret the various concepts, or may not be aware of how the audit function has evolved and when there is a change in the duties of the auditors. Thus, this complicated nature of the audit function contributes to the audit expectations gap. (Lee and Azham, 2008) According to Dobroțeanu et al. (2009), the public way of thinking has not followed the evolution of the audit function and is thus anchored in the traditional role of an auditor as a policeman, which will detect all mistakes and frauds. According to Humphrey (1991), the debate about the audit expectations gap has up until 1991 focused on the audit function and the two of the main aspects of it has been audit assurance and audit reporting. The debate about the audit assurance has been based on the audit report. According to Lee (in Humphrey, 1991), the general view of the audit report, both among the public and among auditors, has been that it is a guarantee of accuracy. In addition, there are views that the audit report aims to give assurance of the financial health of the company as well as the efficiency of management. The debate about audit reporting has focused on the form and content of audit reports and different views exist in this area. Unqualified audit opinions have been perceived by the users as something that is only issued if the audit client does not have any financial problems. As a consequence, the users have difficulties understanding why companies may have serious financial problems short after the auditors have issued an unqualified audit opinion. Moreover, qualified audit opinions may diverge in the intended message and the perceived meaning by users. In this aspect, the audit expectations gap is enhanced by a codification problem, i.e. that if users had better understanding of the code used by auditors in the audit reports, the users would perceive the messages more accurately.

The conflicting role of auditors is a consequence of the increased amount of consulting services offered by audit firms. Thus, the auditor both serves as an advisor to management, which wants the advisor to ignore financial manipulation, and as an objective auditor in the interest of the
shareholders, which want the auditor to report all financial problems. These conflicting roles create a conflict of interest as the auditor, knowing that the consulting service is very lucrative, may act in the interest of the management in order to secure the income of the consulting service. As a result, this may impair the audit independence and thus the objectivity of the audit. (Lee and Azham, 2008) In fact, prior research has shown that the conflicting role of auditors does have negative impacts of the audit independence and this may impact both the independence in fact and in appearance (Lee, Azham and Bien, 2009) The conflicting role of auditors causes an expectations gap as the public may assume that auditors act in self-interest and thus do not achieve the reasonable expected performance (Lee and Azham, 2008).

Retrospective evaluation of auditors’ performance takes place as the public is incapable of determining the quality of an audit and thus the hindsight evaluation is the only visible indication of the auditor performance (Lee and Azham, 2008). As a result, the audit failures become visible as they are of high newsworthiness, while good quality audits remain in the background. This effect enhances the un-met expectations. (Humphrey, 1991) Hindsight evaluation might not be a fair evaluation as hindsight knowledge makes the public believe that the audit was not performed adequately, even though the auditors may not have had all this information. This becomes especially obvious in the case of corporate scandals and collapses where the public assumes that a business failure also means deficient auditor performance and thus an audit failure. This misperception of the quality of an audit further increases the audit expectations gap. (Lee and Azham, 2008)

Time lag in responding to changing expectations is another factor that causes an audit expectations gap. Corporate scandals give rise to changed public expectations of the audit function and may as a consequence lead to changed or increased auditing standards as well as changes in practice. Even so, there is a time lag in the responses and auditors may still be criticised for not responding fast enough in order to be able to meet the changing demands of the business environment. (Lee and Azham, 2008) In addition, the audit profession and the relevant public authorities are criticised for only taking action in the event of scandals and crises and thus having a retrospective approach to maintaining the quality of the profession (Lee et al., 2009). According to an investigation by the Canadian Institute of Chartered Accountants (in Humphrey, 1991) carried out in 1988, the users of the audit reports had reasonable and achievable expectations of the audit. Rather, the audit expectations gap existed due to the fact that the audit profession had failed to not quick enough react and evolve to the changes in the business and social environment. Thus, the audit profession needs to increase its ability to adapt, as the audit expectations gap may almost only be narrowed by the profession accepting the need for change. (Humphrey, 1991)
Another factor that enhances the audit expectations gap is the society’s *unawareness and unreasonable expectations* of auditors. The reasons for the unreasonable expectations are partly that the public misunderstand the nature, purpose and capacities of an audit function. (Lee and Azham, 2008) Generally, users of audit reports perceive the audit function to be broader than the audit function performed. In addition, the perceived audit function is broader than the audit function required by legislation and what is seen as legitimate by auditors. According to Humphrey (1991), the audit profession’s response to the audit expectations gap is usually to highlight the public’s lack of understanding of the audit function and the unreasonable expectations they have. (Humphrey, 1991)

More specifically, the public seems to believe that the auditor’s signature on the audit report means that all numbers are absolutely correct. The consequences of this are that the risks of an audit have been overlooked and that the capabilities of the auditor have been overemphasised. (Lee et al., 2009) Duties that are part of the unreasonable expectations may not be cost-beneficial to perform for the auditor and as a result, these duties will not be part of the auditors reasonably expected performance unless the audit beneficiaries are prepared to bear the costs. (Lee and Azham, 2008) Moreover, media plays an important role in the formation and representation of the public opinion. As accounting, auditing, corporate scandals etcetera are of complicated nature and not completely understood by large parts of the public, media has the opportunity to form the public opinion by explaining these areas in a way that is understandable to the public. However, these explanations are founded in the journalists own perceptions of the situation and in addition they are able to attract all attention to specific issues. As a result, media may after reporting about e.g. a business fraud increase the public expectations of the auditor. (Lesage et al., 2011)

The final aspect that affects the audit expectations gap is the *audit independence*. This is seen as the most valuable attribute of an auditor as it is of high importance that the audit is performed objectively. There are concerns that auditors not being, or seeming to be, independent enough will affect the audit expectations gap. Competitive pressures to acquire audit clients may have lead to audit firms cutting costs to an extent where it may affect the audit quality and the audit independence. Another concern that may impair the audit independence is the provision of non-audit services. However, all major investigations in this area up until the beginning of the 1990’s have found little evidence that these services actually impaired the audit independence. According to several studies reviewed by Humphrey (1991), user groups had much stricter views on situations that could jeopardise the audit independence, than the auditors themselves. (Humphrey, 1991) In spite of the efforts by the profession to increase the audit independence, the public confidence in the independence of auditors seems to remain unchanged, according to Dobroțeanu et al. (2009). This,
they argue, is a consequence of a minority of the auditors, which do not seem to value the professional ethics and independence in appearance (Dobroţeanu et al., 2009).

2.4.3. Existing suggestions to decrease the audit expectations gap

“Thirty years, an untold number of new auditing standards, and at least a dozen accounting scandals later, we still appear to be no closer to closing the gap”. (Dickins and Higgs, 2009, p. 51)

During the years of debates about the audit expectations gap, a lot of different suggestions have been presented as solutions to decrease the gap. Two forms of solutions have been presented by the audit profession and they are defensive approaches and constructive approaches. The defensive approaches focus on the unawareness and unreasonable expectations of the public while the constructive approaches include solutions that aim to adapt and widen the audit function. (Humphrey, Moizer and Turley, 1992)

One defensive approach is to try to educate the public. According to the audit profession, the public has unreasonable expectations of the role of the auditor and this seems to be a consequence of unawareness about the “true” responsibilities of auditors. As a solution, education of the public through information on auditors’ responsibilities has been discussed. (Humphrey et al., 1992) However, this solution is criticised by Lee et al. (2009), who argues that the possibilities to succeed through mass communication are small since auditing is a complex area and the public has a general disinterest in the audit profession. Two favoured ways to educate the public are through a changed audit report and publication of professional auditing statements. Changing the wording of the audit report is seen as a solution to the codification problem, described above. By changing the code, i.e. the wording, there is a belief that the reader of the audit report will better understand the messages in the different audit reports. (Humphrey et al., 1992) According to a review of suggestions in Balans, suggestions have been made as to increase the information to the public about the role of auditors as well as to enhance the audit report to include how the auditors have made their judgments (För eller emot?, 2008). Enhanced audit reports could include the aim of the audit, audit procedures and the responsibilities of the client company. Several studies show that enhanced audit reports, so-called long-form audit reports, increase the readers understanding of the role of the auditor. (Lee et al., 2009) The other favoured way to educate the public is to publish professional auditing statements. This could be guidelines and other papers, describing the role and responsibility of auditors. (Humphrey et al., 1992) In addition, it has been suggested that auditors inform the attendances at the annual stockholders’ meeting about certain interesting issues and judgments that were made during the audit process. (För eller emot?, 2008)
A more constructive approach to decrease the audit expectations gap is to enhance auditors’ performance and to expand the responsibilities of auditors. If the auditors’ performance could be improved, it is very likely that the audit expectations gap would decrease. By using more structured audit methodologies, some studies show that the performance of auditors is improved, while other studies show that this might not be beneficial to the audit firm. The scope of the audit should be expanded to meet the demands of the public and an extended audit could include services such as management discussion and analysis, quality of accounting policies, corporate governance and business risk analysis. (Lee et al., 2009) Even though extended scope of audit would decrease the audit expectations gap, it might be very costly and the client companies might not be prepared to pay for those services. Moreover, when the sound accounting practice has developed to match the demands of the stakeholders, the audit expectations gap will decrease. (För eller emot?, 2008)

In a dissertation made by Peter Öhman (2007), it was suggested that information cannot decrease the expectation gap. Stakeholders demand audit of questions that are vital for the company such as the going concern and additionally they have complaints of the audit report being too short and simplistic. The audit should focus on what the stakeholders demand but the dissertation showed that auditors mainly audit areas that could be audited with help from recognized procedures and with a relatively good precision. However, Öhman (2007) argues that increased information to stakeholders would not decrease their demands and therefore information cannot decrease the expectation gap. Interventions to prevent and decrease the gap that were suggested in the dissertation were firstly to frame guidelines for the reports to increase the content in order to be more useful for stakeholders. These guidelines would also increase the confidence for the audit profession. Secondly, it was suggested that as a supplement to the statutory audit a market-driven audit should be added in order to a greater extent meet the stakeholders’ expectations. (Öhman, 2007)

In this chapter we have reviewed the literature necessary to fulfil our purpose and to be able to answer our problem statement. The main areas that have been presented are the role of the auditor according to existing standards and regulations, the importance of audit independence and the trust the public place in expert systems such as auditing. In addition we have presented the concept of the audit expectations gap, as well as its contributing factors and suggestions on how to decrease the gap.
3. Methodology

In the methodology the methods used to obtain both the primary and the secondary data used in the empirical foundation will be presented. In addition, criticism of the sources, validity and reliability will be presented.

3.1. Practical approach

The gathering of data is the base for the empirical research and can be performed in a number of ways and the choice can be vital for the result (Lundahl and Skärvad, 2009. p. 113). The gathering can be divided into both primary and secondary data where the primary data is information that has been gathered. In contrast, the secondary data is data that has already been gathered and compiled by someone else. (Bryman and Bell, 2005. p. 230)

To be able to answer our problem statement and to fulfil our purpose we have used both primary and secondary data where the primary data used are qualitative research methods in form of interviews. The reason for this choice was to get a deeper understanding of the subject and to allow the interviewees to express their opinions relatively freely. In addition to the qualitative research, the secondary data used contains literature, articles, interviews, a survey by Far and comments to the new Green Paper on auditing.

3.1.1. Primary research – Interviews

The primary research technique that has been used in this thesis is qualitative research in the form of interviews. The benefits with interviews are that the information gathered will be detailed, the respondents’ point of view will be accentuated and the validity is of high level. Other benefits are that it is flexible which makes it possible to do rearrangements during the interview process and that the answering frequencies are high. The disadvantages are that interviews are time-consuming and that the objectivity and reliability can be questioned since the interviewees might be inhibited by the situation. (Denscombe, 2000. p. 161-163)

Qualitative interviews could be more or less structured whereas a structured interview is based on questions in a certain order that have been prepared before the interview (Larsen, 2009, p. 83). In a more unstructured interview the interviewee is given the chance to talk more freely and the interviewer only have a few questions or main points to be able to move the interview forward (Larsen, 2009, p. 84). Interviews that are a combination of both structured and unstructured interviews are called semi-structured interviews (Lundahl and Skärvad, 2009. p. 115-117). Our priority was to perform face-to-face interviews as we believe that this opens up the possibility to deeper and more understandable answers as it is possible to ask additional questions. In addition, a
face-to-face interview increases the chances of having a good relation to the interviewee and easier say if the interview went well or not (Bryman and Bell, 2005. p. 528). Before carrying out the interviews, we prepared the interview questions and they were sent out to the interviewees before the interview in order for them to prepare and in this manner we hoped to get better and deeper answers to the questions. However, these interview questions were seen as a base for the interview and were not intended to be followed to every respect. Rather, they functioned as a support and facilitated the interviews. During the interview, additional questions were asked which were inspired from the context and this made every interview unique. Thus, these interviews were semi-structured (Lundahl and Skärvad, 2009. p. 115-117). During the interviews, the conversation was recorded and later on transcribed. The reason for this was to make sure that the answers were correctly perceived and to ease the work with both the empiric and analysis.

In this thesis we have used respondent interviews, which mean that the person being interviewed is part of the studied phenomena (Holme & Krohn-Solvang, 1997, p. 104). We wanted to interview all relevant parties that are, in some way or another, related to the audit process and the studied phenomena, to be able to analyse their different perspectives. As a result, we have interviewed audit firms to get their own perspective of the public’s and investors’ confidence in the audit profession and how they work to increase this confidence. The aim was to interview both The Big Four (Deloitte, Ernst & Young, KPMG and PwC) and some medium sized audit firms (Grant Thornton, Mazars SET and BDO). However, due to a heavy workload and lack of time of the audit firms, only Ernst & Young and Deloitte had the opportunity to participate in the interviews.

In addition, we aimed to interview both Far and Revisorsnämnden as we wanted a more general picture of the perspective of the audit profession. However, neither of the two organisations had time to participate in an interview. This was also the case with Finansinspektionen, which we wanted to interview in order to get their perspective as a representative for investors.

Moreover, we aimed to interview listed corporations from large cap, mid cap and small cap at the Nordic OMX Stockholm stock exchange to get the understanding of the companies view and their confidence in the audit profession. We also wanted to investigate where the roots to the problems with confidence are located. We chose to contact two companies from each of the three parts of the stock exchange and the reason for this was that we believed that they, due to their difference in size, might have differing answers and maybe different levels of confidence to the audit profession. These in total six companies, were selected due to their geographical location as we preferred companies located in the area of Skåne to be able to make face-to-face interviews. Due to the time of year,
listed companies are performing their quarterly reports and therefore did not have time to participate in our interviews.

3.1.2. Secondary data

As a complement to the primary data, we have used secondary data. The benefits with secondary data are that it is cheaper and less time-consuming compared to primary data collection. In addition, the data is of high quality under the condition that a well-known and reliable source is used. (Bryman, Bell, 2005. p. 231-237)

The secondary data used are articles, interviews and surveys in the subject. Of specific importance in this matter are data of the audit expectations gap as this concept may be seen as a possible explanatory factor to the level of public confidence in the audit profession. A well-known definition of the audit expectations gap is the one used by Porter (1993). This definition is broader than many other definitions and for these two reasons, we prefer this definition and whenever the term audit expectations gap is used, this is the definition we refer to. Even though this is the main definition, we have used other sources as a complement as other authors may have additional angles of the problem. As an example, Humphrey (1991) is used for the reason that this author adds audit independence to the concept of the audit expectations gap.

We have done a review of the audit expectations gap published in Balans. Balans is the Swedish trade journal, which is issued by Far and contains open debates and articles about accounting, auditing and other related areas (www.far.se; 4). The reason for this review was to examine the debates about the existence of and suggestions to decrease the audit expectations gap in Sweden over the latest 30 years. The reason why we chose to only use Balans for this review was that this journal is the most well-known journal in this field and thus should include all major debates within the field of auditing. In addition we have used a special feature issue of Balans which was published in 2008 and dealt with the audit expectations gap in Sweden. The journal consisted of a number of interviews with Revisorsnämnden, Far, banks, large listed companies as well as smaller entrepreneurs. Since such a low number of the organisations which we requested an interview with were able to participate, we had to find information from other sources in order to complete our empirical study. As all the interviews in the journal are about the confidence in the audit profession and the audit expectations gap, we claim that those interviews are relevant for this thesis and have therefore been used in our empirical foundation.

Additional secondary data that have been used in this thesis is a survey initiated by Far about the confidence in auditors and the audit profession. The survey was carried out as a consequence of the articles by the journalist in Svenska Dagbladet (SvD) and one of the main questions was whether the
articles had affected the confidence in the profession. Thus, we believe this survey is of high relevance to our thesis.

Also the comments to the Green Paper on Audit policy: *Lessons from the crisis* have been used as secondary data. This Green Paper was published by the European Commission in the end of 2010 as a consequence of the financial crisis. Several suggestions in the auditing area were brought up and the audit profession and other concerned organisations had the possibility to comment these suggestions. We have chosen to use these responses as we find it relevant as some of the suggestions are related to our topic. In addition to the general comments, we have included responses from Swedish organisations as our focus is on Sweden.

Finally, we have used information from various homepages, articles and other literature as well as the newspaper articles in SvD, upon which this thesis is based.

### 3.2. Criticism of the sources—reliability and validity

As a base for this thesis we have used the articles by Jacob Bursell and Carolina Neurath published in SvD in the end of 2010. We are aware of that these articles are not based on scientific information and may therefore not always be accurate. Since journalist have a tendency to exaggerate and thus there might be an issue with the reliability if the articles in SvD. However, we believe that they are acceptable for their purpose and thus we have used them as a base of discussion and not in our theoretical framework.

We are aware of that the study of the audit expectations gap by Porter is relatively old since it was conducted twenty years ago and that, as a consequence of this, the results may not be valid for the audit expectations gap today. Since it is hard to measure this abstract phenomenon we are aware of that the study might not be completely reliable. Moreover, the study was carried out in New Zealand and thus the results may differ compared to Sweden. However, we believe that these results might be an indication of the nature of the audit expectations gap in Sweden, as a gap has not changed remarkable over the latest thirty years. Thus, we value that the results from the study is usable as an indication rather than the truth.

We are aware of the limitation that we have not asked the public itself about their level of confidence in the audit profession or their view of the audit expectations gap. The reason for this is that it would require a large sample to be reliable and this would as a result be too time-consuming in relation to the time limit of the thesis. However, we have used the survey by Far, who used a larger sample of the public. In addition, the interviewees answered questions about the public view of the gap and the confidence. We are aware that our primary data may be biased as a consequence...
of the interviewees’ personal opinions. In addition, we are aware of that the number of respondents is very low and that this may affect the outcome. However, we believe that the interviewees were reliable.

Our secondary interviews are mainly from the special feature issue of Balans from 2008, which was about the audit profession and the audit expectations gap. All the interviews were made in the same time period, which increases the reliability as differences in responses do not differ as a consequence of special occurrences between the interviews. Even though the journal generally is seen as reliable, this special feature issue may be seen as not being objective as it is issued by Far and they may have excluded some parts of the interviews which were negative about the audit profession. However, we do not believe this is the case. In addition, to the interviews in Balans, we have used other interviews and documents where the opinions of the respective respondent are expressed. As most of the viewpoints are from trustworthy organisations, we believe that they are reliable. Moreover, we have used the Green Paper on auditing issued by the European Commission and the compiled comments by the same organisation. We value this as a highly reliable source as it is issued by the European Commission. Finally, we have used a survey initiated by Far which we value as reliable as Far is a well-known and credible organisation.

The reliability increases if several sources show the same results. As our different sources in many respects show similar or the same results, we believe that the reliability of our data is high. Finally, we believe that the validity of our data is relatively high, as the major part of the primary interviews and all of the secondary data contained information relevant to the purpose of our thesis.
4. Empirical foundation

In this section, the empirical foundation of the thesis is presented. The first part consists of primary interviews with Maria Ekelund at Deloitte and Rune Jansson at Ernst & Young. The secondary interviews used are gathered from a special feature issue in Balans from 2008 dealing with the audit expectations gap. Later on, we present the responses by the audit profession to the critical articles published in Svenska Dagbladet (SvD). The presented responses are by Ernst & Young, The Big Four and Far as well as by RN. In addition, we present a quantitative research initiated by Far as a response to the critical articles. Finally, we present the comments by the audit profession to the Green Paper.

4.1. Interviews – Audit firms

We have interviewed Maria Ekelund, authorised auditor and partner at Deloitte and Rune Jansson, approved auditor at Ernst & Young. The interview questions could be found in chapter eight appendix. According to Ekelund, an audit should be performed in accordance with sound auditor practice and existing regulation. In addition, Jansson says that it is the responsibility of the auditor to satisfy all stakeholders of the company. Recently, the society has evolved a demand that the auditor additionally should review whether the company has managed issues in areas like taxes, salaries and environment in a correct manner. The audit report is, according to Jansson, therefore important to a large number of people. Moreover, Ekelund says that the role of the auditor includes being an advisor and to have discussions with the company, both to make sure that both actions and financial reports are carried out in accordance with existing regulations, but also to help develop areas within the company. The advisory role is more common within smaller companies since they might not have all the necessary competence in house and therefore consult an auditor. In contrast, larger companies in general have the required competence and the auditors’ assignments within these companies are often more complex. The audit of listed companies are often much more time-consuming than the audit in unlisted companies. The reason is the external requirements from shareholders that have to be achieved. In unlisted companies it can therefore be more focus on existing problems and the materiality.

According to Ekelund, the public does not know what the role of the auditor is and therefore unreasonably high expectations exist. The auditor focuses on materiality, while the public expect them to audit every number and detect every little mistake, which results in an expectation gap. Jansson agrees with Ekelund on this issue and admits that the audit firms have not been good enough in communicating the role of the auditor and the audit to the public. One reason for the poor communication might be, according to Jansson, that audit is more or less statutory and therefore it
has not been prioritized by the audit firms to spend money on marketing. However, Jansson expresses doubtfulness about how important it is that the public has the correct view of the audit, it is more important that the clients know. Generally, the client has a relatively good understanding of the profession since this is communicated and discussed in the beginning of the audit. Both Ekelund and Jansson claim that their clients and the public have confidence in the audit profession. The auditor is seen as a responsible and a rather conservative person and this is a view that has not changed significantly over the recent years.

Both Ekelund and Jansson argue that even if a company goes bankrupt six weeks after an audit, it does not have to be the reason of an audit failure. It is always easier to see all the facts when looking back than it is during the time of the audit. The reason for the bankruptcy can be the result of occurrences that is not possible to foresee and if the company intends to hide something from the auditor, this is achievable according to Ekelund. Reports of occurrences like this and other scandals in media, harm the confidence of the public and increase the audit expectations gap. Due to confidentiality the auditors cannot talk about their audit and the audit client and as a result, only a part of the story is showed in media. A part that is taken out of its context might seem questionable but in reality it might be performed in a correct manner and in accordance with the regulation. Even though it might not be the auditors’ fault, Ekelund understands why the public requires answers from and blame the auditor. The board at the company often gets relatively low sanctions and instead the audit firms are blamed, as a result of their often beneficial insurance deals.

Ekelund believes that the public confidence in the audit profession has been harmed due to the articles published by Svenska Dagbladet (SvD) about the audit profession. However, both Ekelund and Jansson argue that the articles were not really objective and the statistics used were somewhat misleading. Jansson further claims that the articles lacked a correct description of the role of the auditor and once again this might be an effect of poor communication from the audit firms. The background information to the statistics in the articles was only focused on one year, but in order to achieve a correct image, a longer period of time has to be investigated. Even though not all facts were correct, Ekelund says that they take the articles seriously, since the media is a powerful force. Moreover, she says that the confidence probably has been harmed by the articles and the most likely reasons are poor performance by the auditor and poor communication to the public about the profession. In contrast, Jansson, does not believe that the confidence was harmed and he argues that the public is critical enough not to take the articles as the truth.

One area that was criticised in the articles in SvD was the fact that audit firms offer and perform both audit and consulting services. However, neither Ekelund nor Jansson think that this harms the audit
or the objectivity of the auditor if it is performed correctly. Since the auditor has a great knowledge and understanding of the client company, it would be remarkable if they were not allowed giving advice. However, it is important that consulting and audit services in one company will not be performed by the same auditors. There are regulation and internal controls to make sure that the independence and objectivity is not harmed when offering consulting services. Additionally, there are rules stating that audit firms are not permitted to perform accounting services in larger companies. According to Jansson, it is therefore not a problem to offer consulting services since there are regulation and other controls to prevent the objectivity and independence to be harmed.

Two other parts of the criticism that was brought up in the articles in SvD were the high compensation and the number of audits that auditors performed. The discussion about the compensation might be misleading according to Ekelund, since SvD only looked at the compensation in one year and not over time to get a mean value. Jansson further argues that the discussion is a result of the Swedish mentality of low tolerance against high compensations and salaries. The high number of audits can be explained by the fact that some audits are not as time-consuming as others. An audit in a large listed company might be very time-consuming and complex while audits in real estate companies do not require the same amount of time. Ekelund claims, that the statistics used in SvD was probably correct but the presentation of it made it subjective and gave an incorrect view of the reality.

In order to prevent and detect low quality performance in an audit there are different controls, according to Ekelund. Auditors are often working in teams, resulting in that another person will always review one person’s work. This is one way to ensure that regulation is being followed. The Big Four have internal controls to detect performance of low quality. Additionally, both Far and RN have controls to ensure the quality. As a result, audits performed with poor quality are rare, according to Jansson.

To ensure and increase the confidence in the audit profession it is important according to Jansson that the auditor is clear about the content of the audit and the responsibilities that the auditor has. This is particularly important in the contact with clients to make sure that the client has the correct view of what to expect from the audit. Additionally, Jansson argues that better communication, open debates and articles will help to ensure the confidence and decrease unreasonable expectations that the public has. Neither Ekelund nor Jansson believe that extended regulation and controls would be preferable to increase the confidence and decrease the gap. The regulation that already exists is enough. Neither would extended external controls be necessary since the ones existing today are working well enough. The only thing that might be discussed is if the controls should be performed
by an authority instead of a trade organisation. RN has the total responsibility for the controls even though Far, due to delegation, is performing parts of the controls. Jansson claims that if everybody thinks it would be better if RN performed all controls by themselves then that might be the best solution. However, as it is today RN does not have the resources required for this and as far as Jansson knows, RN is satisfied with how the systems are today.

A common oversight on an EU level would not, according to Jansson, be preferable since the differences between the countries are too large. Ekelund claims that the aim for the Swedish audit is to have an optional audit where the focus is on the clients’ needs and requirements, whether the EU is going in the opposite direction. It would require a lot of work and time to establish a harmonized and common regulation within the EU and Jansson believes that this will not happen in the near future. If this would be reality, he further argues that it probably would be yet another bureaucratic institution in Brussels and that would not be in favour of the profession.

4.2. Secondary interviews from Balans
The interviews used in the following sections are mainly based on material from a special feature issue from 2008 about the audit expectations gap in the trade journal Balans. The issue contained interviews with Far, RN, an entrepreneur, the CEO of a listed company and the National Association of the Savings Banks (Sparbankernas riksförbund).

4.2.1. Far – Peter Clemedtson
According to the president at Far, Peter Clemedtson, the two main reasons for the audit expectations gap are statutory audit for listed companies and the same regulation for both large and small companies. In a large company the auditor is limited to audit only a few parts while in a small company it is possible to look through almost everything. Due to this, Clemedtson does not think it is remarkable that an expectation gap exists. Other factors that contribute to the gap are that there is an increased interest in auditing from the public due to savings in shares and additionally that there is an ambiguity in services supplied by the audit firms. Clemedtson argues that due to scandals the audit profession gets more attention and in addition the audit expectations gap is enlarged. The gap could be seen as the profession’s most vital problem since it affects the business negatively. According to Clemedtson, the gap will decrease when the statutory audit for the smallest companies now is abolished. The audit will instead be driven by a demand which also allows auditors to communicate their role, which hopefully results in a decreased gap. One intervention to decrease the audit expectations gap is to communicate and inform about the role and content of the audit at the annual shareholders meeting. Clemedtson does not think there is problem that auditors act as both auditors and consultants. Rather, he argues that the auditor should answer questions and provide guidance. However, it cannot impact the auditor’s objectivity and integrity because the auditor is
required to be professional. To decrease the audit expectations gap, Far works with communication to create an understanding towards the profession. Moreover, they work with market-driven audit and to develop other services as a result of the abolishment of statutory audit for small companies. (Ehlin, 2008; 1)

4.2.2. Revisorsnämnden - Peter Strömberg
Peter Strömberg, director at Revisorsnämnden (RN), stated in an interview in 2008 that there is an existing audit expectations gap between what auditors do and provide and what their clients expect them to do. A common misunderstanding is, according to Strömberg, that the auditor should direct the client company and that the auditor will audit all details during the audit process. Moreover, people do not see the difference between an accounting consultant and an auditor. Strömberg does not perceive the audit expectation gap as a major problem today but claims that it would be vital if the gap was extensively increased. However, this is currently not a problem and Strömberg argues that the overall confidence in the profession is high. The reason there is an existing gap is due to the complexity of an audit. It is hard for the public and stakeholders to understand the exact role of the auditor and the audit process and therefore a gap arise. Strömberg believes that the gap is increasing due to the increased regulations on audit and that the numbers of stakeholders are growing. With an extended regulation and more details to consider, it is easier to miss out on one detail which might have an impact of the confidence even though the mistake might not affect the audit as a whole. In addition, Strömberg argues that every accounting scandal is adding something to the regulation and in most cases it is not until there is a scandal that the public react and question the profession. As information about the audit profession is not demanded until there is a scandal, RN is not very active in communicating regulations and the role of the auditors to the public. (Halling, 2008)

4.2.3. Entrepreneur - Monica Lindstedt
As an entrepreneur and founder of the Swedish cleaning and service company Hemfrid, Monica Lindstedt states that it is of high importance that the auditor knows her company. In addition, Lindstedt says that it might be annoying with auditors that are too focused on the numbers and set the real operation aside. An auditor has to see beyond the numbers to get an understanding of whether the company is actually healthy or not. Even though the audit was not statutory, Lindstedt would still engage an auditor. In addition, Lindstedt points out that it is important that the auditor is responsive and is able to maintain good relations with the clients. Lindstedt is generally satisfied with the performance of auditors but mentions, as the largest negative aspect, that the compensation to auditors is too high. Moreover, Lindstedt argues that a full audit is not necessary for all companies, especially not for smaller companies. As an entrepreneur Lindstedt is more interested in whether the company is on the right track rather than to get a full analysis with too many details. (Precht, 2008; 1)
4.2.4. Listed company - Thomas Erséus
Thomas Erséus is the CEO of the Swedish listed real estate company Kungsleden, and says that his picture of an auditor has changed from a person reviewing numbers to a person having a more advisory role and having a broader responsibility. In his view, the audit is a supportive tool and the more complex the organisation is, the more important it is that the audit is trustworthy. According to Erséus, the primary role of the auditor is to help the company to assure that accounting records of good quality are being kept. In addition, it is of high importance that the auditor is able to function as an advisor and that discussions about alternative solutions can be held. In these discussions, Erséus values an auditor that has the ability to not only present alternative solutions, but also is able to give advice about preferable and problematic solutions. He wants clear answers, rather than an auditor that leaves it all up to him to decide. To build confidence, Erséus argues that the most important factor is that the auditor has high integrity and is able to criticise when something is wrong. According to Erséus, the compensation to auditors is relatively low compared to other countries, e.g. in the UK. As a consequence of this, he argues, is that the auditors do not have as much time for advises and other important discussions that he wishes for. (Precht, 2008; 2)

4.2.5. Sparbankernas riksförbund - Ulf Christoffersson
Ulf Christoffersson is chairman of the board at Sparbankernas riksförbund, National Association of the Savings Banks, and according to him, the role of the auditor is to review as well as working as an advisor. In addition, the auditor has to be able to give advice on the possibilities to development of the company. The auditors are important to the banks, as they in the situation of a new business client require that the client’s financial statements are audited. Christoffersson claims that no audit expectations gap exists between the banks and the auditor, but such a gap may exist between the auditor and the public and some small companies. He believes that the public in general think that audited financial statements are free from mistakes. Christoffersson’s viewpoint is that, to decrease the audit expectations gap, Far has to give more information about the role of auditors, especially in times of scandals when the public has a larger interest in such information. (Ehlin, 2008; 2)

4.3. The profession’s responses to the articles in SvD
The audit profession received a lot of criticism in the end of 2010 due to SvD’s articles about the profession. However, Lars Träff chairman of the board at Ernst & Young is sceptical to the articles and argues that they contain a lot of errors and are prejudiced. According to Träff, Ernst & Young tried to inform media about the errors and even invited SvD to follow an audit to see how the internal control system worked. However, the journalists at SvD did not accept the invitation. The articles raised criticism about the fact that the CEOs and chairmen of the boards at The Big Four, beyond their high positions also had time to perform a lot of audits. Träff responded to this criticism with the
fact that in order to be a CEO, the auditor has to be certified and in order to keep the certification the auditor has to perform 400 hours of auditing each year. Even though the articles contained errors, Träff is welcoming a discussion and a review of the profession. The audit expectations gap has existed and been discussed for as long as Träff has been in the business and he claims that most of the time their clients have a very good view of what the audit contains. The problem arises when occurrences like HQ Bank and Carnegie Investment Bank occurs and when people read about it in the newspaper, as “they tend to forget that there are over 300 listed companies and the whole audit profession receives criticism when there are errors in a small number of these companies”. Despite the problems, Träff confirms that they have not been good enough to communicate the role of the auditor and the purpose of the audit. However, this is something they are working on and nowadays, they are always presenting the contents of the audit at the annual stockholders meeting. Moreover, they try to be clear that the audit is based on samples but that the methods used are constructed to find material errors. (Rehnberg, 2011)

As a response to both the articles and the meeting with Peter Norman, The Big Four and Far published their response and comments to the audit of financial companies in the beginning of 2011. Financial companies are vital for an efficient and well functioning economy and therefore the audits of these companies are of major importance. Since problems and errors in these companies can have great impacts on stakeholders, it is important to continuously work with the audit quality in financial companies. Even though errors might occur, neither the Ministry of Justice nor the RN has made public any general defects in the audit procedure and the Swedish audit is according to the World Economic Forum the second best in the world. Despite this, The Big Four and Far have come up with some suggestions to increase and strengthen the confidence in the profession. They do not think that extended regulation would solve any problems and instead they focus on developing the conformation of the current regulation. (Clemedtson, Forsberg, Lindgren, Träff, Brännström, 2010) Brännström at Far further argues that no extended supervision of auditors is needed (Brännström, 2011). It is suggested that the communication between auditors, client companies and Finansinspektionen (the Swedish Financial Supervisory Authority) should be enhanced. Moreover, the requirements for getting licensed as an auditor of financial companies should be enhanced, rotation of responsible auditor should be introduced into financial companies and additional it is suggested that RN should take over the quality controls from Far. (Clemedtson et al., 2010)

In addition to The Big Four and Far, Peter Strömberg (2010) at RN wrote a response to the articles. In accordance with The Big Four and Far, Strömberg is welcoming a review of the authority and he argues that the Swedish audit is of high quality and that RN has been successful when it comes to suspending auditors who do not achieve the requirements. However, just like most organizations, RN
can make mistakes and miss out on circumstances that should have been sanctioned but Strömberg claims that this is not an effect of errors in the evaluation process or that The Big Four can influence the organization like the journalists at SvD claim. In contrast to these journalists, Strömberg claims that the employees of RN are objective and do not act in favour of The Big Four. To be able to work at RN there is a requirement of 25 years experience in the audit profession and Strömberg argues that there are only competent employees within the authority. Thus, the audit profession cannot affect and influence RN. One part of the criticism in the articles was that it is very rare that auditors from The Big Four are sanctioned to lose their authorization. However, Strömberg claims that the statistics in the articles was not objective and that there were more sanctions towards The Big Four auditors but not as harsh as losing the authorization. Even though the numbers were presented in a subjective way, the information behind the statistics was probably correct. This is true because the quality of the audits made by auditors at The Big Four is often very high and the need for sanctions is not as high as within smaller audit firms. (Strömberg, 2010)

4.3.1. Far: Survey about the confidence in auditors
As a consequence of the articles by SvD, Far initiated a survey about the confidence in auditors in Sweden among 601 business leaders, 212 politicians and 1000 people representing the public. From the survey, it could be concluded that the society’s confidence in auditors is very high. Among the business leaders, 81 percent have a high or very high confidence in auditors, while 97 percent of the politicians and 72 percent of the public have a high or very high confidence in auditors, see figure 2 below. (Far, 2011; 2)

Figure 2. How high or low is your confidence in the audit and advisory profession/auditors in general? In percent. Source: Far (2011; 2) p. 6.
The respondents who answered that they have very low confidence in auditors (4, 4 and 5 percent, respectively) stated that the reasons were their own personal experiences with auditors. Among the public, the absence of any experiences with auditors or a general negative picture of the audit profession were common reasons for a low confidence in auditors. The business leaders stated that reasons for their low confidence were high costs, poor advisory services, poor audit, that the audit contains services that are not needed and that the auditors lacked knowledge in certain areas. Moreover, it was concluded that no connection existed between the medias’ (SvD’s etc) articles about the audit profession and the confidence in auditors. (Far, 2011; 2)

4.4. Comments to the Green Paper
We have used the audit professions’ comments to new Green Paper with the title “Audit Policy: Lessons from the Crisis”, published in October 2010 by the European Commission. We believe that these comments and the Green Paper are relevant to the purpose of our thesis as they deal with topics such as the role of the auditor, non audit services and supervision, which all may have effects on the confidence in the profession as well as on the audit expectations gap. With the Green Paper, the European Commission was seeking views and comments primarily from the audit profession in Europe to several audit-related issues. Among other questions, they asked about the role of auditors and whether auditors should assure the financial health of companies and whether the audit methodology needs to be further explained. Other questions were what could be done to increase the value of audits to users and how to improve the EU-level cooperation on audit firm supervision. (European Commission, 2010)

4.4.1. Role of auditors
Among a majority of the professional bodies within the audit profession the reply about the purpose of an audit that it is not to report on the financial health of companies, as suggested in the Green Paper, and that the audit as it is today is not suited for this purpose. Instead, the role of the auditor today regarding to the professional bodies, is to give reasonable assurance of the true and fair view of the company’s financial statements. This view of the current role of auditors is in line with the view of The Big Four, who state that auditors should “issue an opinion as to whether the financial statements give a true and fair view in accordance with the relevant reporting framework”. The general view of the investors, on the other hand, is that they would like auditors to provide assurance of the financial health of companies, as suggested in the Green Paper. (European Commission, 2011) Aktiespararna (The Swedish Shareholders’ Association) suggests that the role of the auditors should be extended to include an assessment of future-oriented information, such as the financial health of companies and certain risks the company faces. Aktiespararna believes that if
this information could be presented in a standardised, understandable and comparable way, this would add value to the smaller investors. (Mårder and Berggren, 2010) After the financial crisis, there is a need, according to Svenska Bankföreningen (Swedish Bankers’ Association), to improve the regulation and to review and clarify the role of auditors (Af Jochnick and Tetzell, 2010). According to the public authorities, the purpose of an audit is to review historical information (European Commission, 2011).

The suggestions to decrease the expectations gap are, regarding to the professional bodies, to give more information by explaining in the audit report what has been done, key areas of judgements, material issues etcetera as well as increase disclosures on risk, judgments and estimates and even ask the stakeholders what kind of information they would like to have. (European Commission, 2011)

“Far acknowledges that there is an expectation gap which is also complicated by the fact that this gap probably varies significantly between individual stakeholders. Far therefore supports initiatives to bridge this gap and to more clearly explain the audit methodology, should there be a genuine demand among stakeholders in their decision-making process when they use the financial statements.” (Bäckström and Brännström, 2010)

Another suggestion from the professional bodies was to strengthen the independence of the audit committees. Investors were of the opinion that auditors in their audit reports should explain how they have conducted the audit. (European Commission, 2011) Aktiespararna argues that “the expectation level of the shareholders on information about the company is normally higher than could be set out in the audit report”. Consequently, this gap has to be bridged and there is a desire from the shareholders to find other ways to express information in the audit report. In addition, they find it important that the auditor is more visible, e.g. on annual shareholders’ meetings, in order to answer the shareholders’ questions. (Mårder and Berggren, 2010) According to the public authorities, it is important to decrease the expectations gap as much as possible and this may be done by explaining the methodology of the audit to the users of the audit report. This could be done by an extended audit report, were the auditors explain how they have conducted the audit and how they arrived at the judgements and valuations. (European Commission, 2011)

Comments on how to increase audit quality were from the professional bodies that communication between auditors, regulators and the company should be enhanced and that the role, purpose, scope and limitations of the audit need to be defined. In addition, there is a need to increase awareness of concepts such as going concern. The Big Four warns the Commission that some measures to strengthen the role of auditors may be helpful in this aspect, but that there is a risk that these measures will have a negative impact of the audit quality, increase the costs for companies as
well as having an effect on the rights of the stockholders. Among the non Big Four audit firms, there is a view that the audit quality may be negatively affected by the pressure for lower audit fees in some countries. They have also expressed an opinion that the meaningful content of the audit opinion has been removed as a consequence of the standardisation of audit reports. The investors suggested that the auditors should strengthen their professional scepticism, especially in areas of fair value valuation and going concern validations. This could be done by junior staff training, continuing education and by reducing the numbers of junior member of the team. The opinion to increase the auditors’ professional scepticism is shared by the majority of the public authorities. According to investors, auditors also need to review the terminology used in audit reports and provide more informative audit opinions. Some of the investors suggested that auditors reviewed and gave an indication of the quality of the financial statements and to what extent the company is pushing the boundaries of the accounting standards. This would be of high value for investors, according to the investors who commented the Green Paper. Most public authorities suggested that the communication between the auditor and the stakeholders should be increased. (European Commission, 2011)

4.4.2. Non-audit services

In the Green Paper, the Commission asked the question whether non-audit services by audit firms should be prohibited. Both The Big Four and professional bodies like Far generally oppose against such a prohibition. (European Commission, 2011)

“The advantages of being able to provide non-audit services to audit clients, of course with regard to legal requirements and ethical standards, should not be dismissed without due consideration. The range and depth of skills offered by multi-disciplinary firms enhances the quality and efficiency of both the audit and the non-audit services and these multi-disciplinary skills meet the needs of clients with complex and cross-border business operations. Likewise, the audit firm will achieve better knowledge of the company, which increases the quality of the audit. Far does not believe that a prohibition on providing any, or just certain, non-audit services is necessary from an independent perspective. Nor would such a prohibition have a positive effect on audit quality. Far is also of the opinion that prohibitions do not fit well into a principle-based system.” (Bäckström and Brännström, 2010)

On the other hand, the non Big Four audit firms generally appreciate the prohibition of non-audit services as a measure to maintain the audit independence, although some of these audit firms are of the opinion that these non-audit services are crucial for the existence of smaller audit firms (European Commission, 2011). SET Revisionsbyrå encourages a prohibition of advisory services that
are in connection with audit assignments of public interest. They argue that this would strengthen the independence both in fact and in appearance. (Andréasson and Wahlström, 2010) The public authorities answered that the non-audit services should not be prohibited and that they even enhanced the audit quality since the audit firm gain deeper knowledge of the client. Even though, they said to be prepared to agree on a list of prohibited non-audit services. The investors were generally of the opinion that such services that had no connection to the audit should be prohibited as they negatively affect the conflict of interest. In line with the public authorities, the investors suggested that a list of prohibited and allowed non-audit services should be created. (European Commission, 2011) However, Aktiespararna argues that non-audit services under certain circumstances could be an advantage for the client company, especially for smaller ones (Mårder and Berggren, 2010). According to the majority of investors, there is a need to clarify what a non-audit service really is. Most of the investors agreed on the suggestion to improve the disclosures on non-audit services with the intention to facilitate for the shareholders to question the services provided and discuss this with the auditor and the audit committee. In addition, the investors suggested that the audit committee should be part of the evaluation of the non-audit services. (European Commission, 2011)

4.4.3. Supervision
The Commission wanted views on how to improve the integration and cooperation on audit firm supervision at EU level and how to increase communication between auditors of large listed companies and the regulator. According to the professional bodies, there is a need for enforcement of EU regulations about the responsibility of auditors of financial institutions to communicate on certain issues to public authorities. Both The Big Four and the non Big Four favoured an EU-wide coordination of audit oversight boards, but The Big Four would rather not see this as a new EU-body like a European Supervisory Authorities in contrast to some of the non Big Four audit firms. In accordance to the non Big Four audit firms, investors preferred an integrated approach to coordination of oversight boards in a European Supervisory Authorities. Both investors and the Big Four suggested a two-way communication as a solution to increased communication between auditors of large listed companies and the regulator. This would mean that instead of a one-way communication from the auditor to the regulator, the regulator would in addition communicate certain issues to the auditors. (European Commission, 2011)
5. Analysis

In the analysis the theoretical framework will be analysed in connection with the empirical foundation used in the thesis. We will start analysing the responses to the criticism that was raised in Svenska Dagbladet (SvD). Later on we will analyse the audit independence and the confidence in the audit profession. Finally we will analyse the audit expectations gap where we will start with the contributing factors and then continue with the suggestions on how to reduce the gap.

5.1. Responses to the criticism raised in Svenska Dagbladet

The critique raised by the journalist in SvD was not about the audits performed but instead it concerned other areas. The main reason for this might be that the audits are of high quality. The high quality is ensured by a number of controls that aim to detect and prevent poor quality performance. For example, auditors work in teams which means that one auditor will review the work of another auditor. Moreover, there are a lot of internal controls within the audit firms, as well as controls performed by both Far and RN to ensure the quality of the audit. According to The Big Four, performance of poor quality is very rare in relation to the number of controls. However, one area that was criticised was the fact that it is Far that performs the continuous controls of the audit quality. The criticism was that Far, which is the trade organisation for auditors and advisors, performs controls of their own members and it could be questioned how objective the controls are. The controls should be performed in accordance with the EG-recommendations about quality controls and this would be one contributing factor to the objectiveness of the controls, assumed that Far actually follows the recommendations. However, there might always be cases where the controls are not objective enough due to the human factor. In addition, Far’s objectivity can be questioned when they state on their webpage that their basic standpoint is the need of their members. Can a trade organisation really be objective when they control their own members, members that are the main interest of the organisation?

Moreover, SvD questions the fact that eight of the 14 members of the board of directors at Far, are active auditors at The Big Four audit firms. This might naturally be one inducement not to be as harsh in the controls of the firms where they are employed. However, all respondents argue that neither the Ministry of Justice nor the RN has made public that there are any general defects in the audit procedures. Moreover, they argue that the Swedish audit is seen as the second best in the world. It could be discussed, due to these facts, whether there is any “relevance” of the criticism that was published in SvD. As the Swedish authorities do not seem to believe there is a problem with the controls, how can SvD claim that there are problems or are the Swedish authorities just unwilling to admit it? If Far is no longer allowed to perform the controls of their members, it would mean that RN
has to perform all controls, which today would be impossible since they do not have enough resources. Moreover, if the Swedish audit is the second best in the world, are there really any problems regarding the controls and supervision of the profession? Maybe the existing controls are objective enough since the audits performed are of high quality. Even though most of the respondents believe that Far has the required competence and objectivity required, there is a suggestion that RN should perform all controls of financial companies. The reason for this might be that financial companies are of high importance to the public as most people are dependent on them. Thus, the controls of these companies need to be of high quality and in addition, the public may perceive the controls as more trustworthy if they are performed by RN instead of Far, as Far is perceived by media and the public as not being objective enough.

In addition to Far, RN was criticised in the articles in SvD. The responsibilities of RN are to supervise and control that the audits are of high quality and to deliver sanctions if auditors have omitted their responsibilities. Moreover, RN shall maintain the confidence that the public have in the audit profession and hear received complaints of auditors. Similarly to the criticism towards Far, RN was criticised because a large number of the inspectors at RN have a past in The Big Four and that acquaintanceship exists between The Big Four and the authority. Strömberg at RN argues that the quality of RN is high and that the employees of the authority are objective and competent. In order to work at RN, there is a requirement of 25 years of experience within the audit profession. Would it be fairer and more objective if all members of RN had a past in smaller audit firms? Maybe the knowledge about e.g. large, listed companies and complex issues would not have been as high as it is today. Would RN be criticised for not having the view of The Big Four, which after all have 90 percent of listed companies? In the end, these former auditors with 25 years of experience have to have a past from one audit firm or another. Does it really matter which one? In addition, it could be argued that whenever a person changes jobs, the values and opinions tend to conform to the new organisation. This would mean that an inspector at RN with a background at one of The Big Four audit firms, would not sympathise with the auditors of which the controls are being performed to an extent where the inspector would be subjective in the evaluation.

Moreover, it was criticised that, despite the large number of audits, the number of auditors from The Big Four who lost their authorisation was very low. Strömberg argues that, just like other organisations, the RN can make mistakes and maybe more auditors should have lost their authorisation. However, this is not due to errors in the assessment process or due to that The Big Four would be able to influence and impact RN. The low number of sanctions towards auditors from The Big Four could instead be explained by the fact that audits performed by The Big Four are of high quality as a result of a lot of internal education and internal controls. However, it could be discussed
whether there is some truth to the arguments stated by the journalists at SvD or not. The audit profession claims that the articles are subjective and that RN is objective and do not favour The Big Four. Employees at RN are competent with a lot of experience but as stated in the articles, most of them have a past in The Big Four which might impact their objectivity. They might favour these audit firms since they know that their audits generally are of high quality. Moreover, they might not want to increase the criticism towards The Big Four since it might have a negative impact on the audit profession as a whole. Since the audit profession is vital for the capital market, increased complaints and criticism towards the markets largest audit firms might harm the capital market and the confidence in the audit profession. This could be one reason to why RN does not deliver as many sanctions to The Big Four auditors as to auditors from smaller firms.

Even though the articles gave rise to criticism of the controls and the supervision of auditors, the respondents do not believe that extended regulation and/or supervision would solve the problems. Instead they argue that it is better to focus on developing the conformation of the current regulation. This could indicate that auditors are not performing the audits in accordance with current regulation and that might be the reason why poor audit quality might occur. It could also indicate that the existing regulation is rather complex. Then this might be the reason for the sometimes poor performance, as the auditors themselves might not always be able to interpret the regulation. It could also be argued that extended regulation would make it even more complex. Increased regulation could result in the fact that more mistakes are made by the auditors, since it is harder for them to interpret the regulations and perform the audit in accordance with all the rules. The more rules, the easier it might be to miss out on some details. It can therefore be argued that extended regulation might have the opposite effect, instead of decreasing the mistakes it might increase them. Moreover, increased regulation might be hard for the Swedish audit profession to implement, as the standard setting is influenced by the EU and thus might be limited by the decisions at EU level. As a consequence, it might be argued that the profession might not be able to implement certain propositions in Sweden as they might not be desirable at EU-level. As a result, the audit profession has to lobby the EU in order to get the EU to implement the suggestions of the Swedish audit profession.

Further on, the audit firms state in their responses to the Green Paper that they agree on that an EU-wide coordination of audit oversight boards would be preferable. However, the interviewed audit firms and Far do not believe that extended supervision would be necessary. They argue that the existing supervision, despite the criticism by the journalists in SvD, is of high quality and therefore there is no need to extend it. Moreover, the interviewed audit firms argue that a common oversight on an EU level would not only have advantages since the differences between the countries are too
large. In addition, it would be very time-consuming to establish a harmonized supervision within the EU. It could be argued whether a coordination of audit supervisory boards would really be as effective as intended due to the differences between the EU members. Would the quality of audits really increase to the extent where it would be worth the time and money invested? Maybe it would be better to spend this money on Far or RN and thus try to develop their controls of the audit profession. However, one possible drawback with this is the criticism raised towards these organisations for not being objective. In this point of view, an EU-wide coordination would maybe be seen as more trustworthy and objective and this may in turn increase the confidence in the audit profession.

Other criticism raised by the journalists at SvD was the sometimes very high compensation, where it was criticised that the auditors had high salaries, could receive high bonuses and benefitted from the beneficial tax rules within the audit firms. As always it can be questioned if highly compensated people really deserve that large amount of money. But who is to decide the fairest compensation in order not to upset the public? However, Jansson claims that this criticism is due to the Swedish mentality where it is not “accepted” to earn that much money. In addition, the audit fees have been criticised by the client companies for being too high. However, compared to many countries, the fees are relatively low. Another area that might be questioned is the beneficial tax rules. However, the audit firms do not set the tax regulation, they are just benefiting from it. Is it then really the audit firms that should be blamed? If the public find these rules remarkable it is the responsible authority which should be in focus for the discussion and not the audit firms.

In addition, the articles question the fact that the CEOs and chairmen of the boards of The Big Four, beyond their high positions, also had time to perform a lot of audits. Thus the journalists question the quality of the audits if one person has time to perform that amount of assignments. However, as a response to this criticism, Träff at Ernst & Young claims that in order to be a CEO of an audit firm the auditor has to be authorised and in order to keep the authorisation the auditor has to perform at least 400 hours of auditing each year. Additionally, it could be explained by the fact that most audits are performed by teams which means that one auditor is not performing the whole audit alone. Moreover, the time required on each audit depends on the nature of the audited company. Audits on some companies might be very time-consuming and complex while others are fairly easy and do not require as much time. This could be seen as good explanations towards the criticism and at the same time questions can be raised towards SvD. If the explanation behind the criticism is this simple, one can wonder if the quality of the research behind the articles is very high. Would these articles impact the public confidence in the audit profession due to poor research work or are the explanation not that easy and obvious? It might be that the journalists themselves had poor
knowledge about the audit profession and thus provided the readers of the articles with information that was taken out of its context and thus made it seem remarkable and newsworthy. If this is the case, then the journalists transferred their maybe unreasonable expectations of auditors to the readers and the public. As to be discussed below, the reports by media might then negatively impact the publics’ confidence, especially since the articles in SvD were subjective and possibly biased by the unreasonable expectations of the journalists, which might result in an enhanced audit expectations gap.

5.2. Independence and confidence
With the growth in capital market the auditor is seen to be a vital player in the business environment since the political stability and wealth creation depends on the assurance provided by the auditor. Decisions require credible information about the operation of the companies, information that is usually obtained from the financial statements. The audit has come to be of major importance for a large number of people. This is due to that the public interest in the financial market has increased as well as that the auditor is responsible for satisfying all stakeholders, according to Jansson at Ernst & Young. Due to the large number of users of the audit report, it can be said that auditors and the audit profession have a vital role to stabilise and ensure a credible market. Since the audit is of such a major importance for the society it can be understood why the public react when the audit profession is being questioned. The audit has to be performed in accordance with the regulation and sound auditing practice, otherwise the audit would not be able to give credibility to the financial statements and the whole idea with the audit falls. The public would not be able to trust the financial statements which could result in instability in the financial market.

In order to add credibility to the financial statements and to keep the public’s confidence it is vital that the auditors are independent from the company that they are auditing. The public expects the auditor to be trustworthy and without influences from the client that will affect the professional judgments. Independence is therefore one of the most important requirements that an auditor has. Thus, it is vital that the auditor is independent both in appearance and in fact, meaning that the auditor should both act independently and be perceived as independent. It is not enough to act independently and in accordance with ethics regulations if clients and others do not perceive the auditor as independent. On the other hand, an auditor cannot be perceived to be independent if this is really not the case. Therefore, it is important that the auditor really is independent in both fact and in appearance.

According to Jansson at Ernst & Young and Strandin in Balans, it is of major importance that auditors are clear about the audit and the responsibilities that the auditors have to ensure and increase the
public confidence in the audit profession. If an auditor would not be independent enough, it might harm the public confidence in the audit profession as a whole. When the confidence is harmed, the credibility of the financial statements might be reduced and as a result the whole financial market might be affected. It would be devastating for the profession if the confidence was reduced to a low level. Respondents claim that the confidence in the audit profession in Sweden today is high in general. According to the survey initiated by Far, 81 percent of the business leaders, 97 percent of the politicians and 72 percent of the public have a high or very high confidence in auditors. Looking at the numbers, it can be seen that the confidence in the audit profession is very high. Even though the confidence among the public is lower compared to the other categories, it is still a high confidence in general. However, these numbers do not show how high the confidence was before the publishing of the articles in SvD and thus it is not possible to actually say whether the confidence was negatively affected. Even though the level might be high today it is important to keep working with independence issues to increase the confidence even more. According to the audit profession, the confidence could be enhanced by better communication to the public and the clients regarding the role of auditors, as well as between the auditors, the clients and Finansinspektionen regarding financial companies. In addition, Erséus at Kungsleden argues that the most important factor to build confidence is that the auditor has high integrity and is able to criticise when something is wrong. It may be argued that the confidence is build up in every meeting between auditors and their clients. Thus, it is important that the auditors, in every meeting, are objective, have high integrity and communicate their own and their clients’ respective responsibilities. This might increase the understanding of the audit process and the auditors and thus enhance the confidence in the audit profession. In addition, this kind of communication could be used in the annual shareholders’ meeting to increase the understanding and confidence among the shareholders. According to Aktiespararna, the shareholders would value if the auditor had time to answer questions at the annual shareholders’ meeting and this could thus further increase the confidence.

There are some threats that might impair the audit independence and the most relevant threats in this thesis are the self-interest threat and the familiarity threat. Due to the revelations in the articles and the fact that that the audit firms make a lot of money on both offering audit and consulting services it can be seen that the large fees and concerns of losing a client might be the biggest threat. The auditor might have a conflict of interest in those cases since the compensation comes from the client which is audited even though the responsibilities really are to the stakeholders of the company. If one client might be of great importance to the audit firm in a monetary view it can be questioned have objective the audit will be. The auditor might not want to irritate the client by giving them critique about the financial reports and maybe even a qualified opinion, since this might result
in an ending of the contract. This might occur if it is a relatively large company and in the case of a smaller company the threat can instead be the familiarity threat. The auditor might have developed a close relationship to the client company, and due to this is unwilling to give a qualified opinion. However, respondents argue that there are internal controls and safeguards to detect and prevent threats but it might still be questioned whether or not such controls are working. Would the audit firm really say no to an assignment that would generate large compensations, even if the controls show that there is a risk that the assignment will impair the audit independence?

The world has evolved to a complex world with a number of expert systems, as defined by Giddens, which affect the daily lives of individuals. Auditing is seen as an expert system as it is based on theoretical knowledge together with skills in financial and business matters. The theoretical knowledge and regulation on both accounting and auditing might be complex to a large number of users and people trust it to be reliable and that the performance will be in accordance with technically correct principles. Even though audits are performed with a lot of subjective judgments, non-experts believe that the underlying data is objective and therefore they assume that the financial accounts produced by these systems are accurate. The audit can affect and impact a large number of people and it is mostly not until people are negatively affected as they start questioning the expert systems. Since auditing is vital for the financial market it is of major importance that the trust from non-experts will be remained. If they do not, the result might be similar to the case with Arthur Andersen, where people lost the trust in the audit firm which resulted in the collapse of the firm. As a consequence of the articles in SvD, the non-experts might be more critical towards the expert systems since the articles might have made them more informed about the audit profession. Since the articles were rather sceptical towards the audit profession, it would probably lead to a reduced trust in the expert system and as a consequence the audit expectations gap might be enhanced. However, most articles contained criticism of auditors and the situation within the audit firms and not of the content and performance of the audit itself. This could be one factor to that the trust in the expert system might not be negatively affected since the trust in the audit performance is not decreased. Instead the trust in the auditor might decrease as a consequence of the criticism and naturally this may have an impact on the trust in the audit performance as well. However, this impact will probably not be as large as it could be if most of the criticism was towards the audit performance.

As discussed above in the Enron and Arthur Andersen case, financial crises and scandals might reduce the public confidence towards the audit profession since the independence might be questioned. The criticism raised by the journalists in SvD is far from as severe as in the Enron case, but the public confidence might have been impaired anyway. The interviewed audit firms disagree on
whether the articles affected the confidence in the audit profession or not. Ekelund at Deloitte believes that the articles have had an impact and says that Deloitte takes the criticism in the articles seriously since media has a vital role in the lives of many individuals. Even if it did not have a vital impact, it might still have given rise to a discussion and a more consciousness among the public. Most of the respondents are rather sceptical towards the articles in SvD and even though The Big Four, Far and RN do not find the articles correct and objective, they are all welcoming a review of the audit profession. If the articles did have a negative impact on the public confidence in the audit profession, the most likely reason might be poor communication to the public about the audit profession. This might in turn enhance the audit expectations gap. However, the survey initiated by Far as a consequence of the articles in SvD showed that the trust and confidence in auditors were high and that the articles in SvD probably did not have any significant impact on the confidence. If the results of this survey correspond to the opinions among the whole public, it is a positive result for the audit profession. This shows that even though media is a strong force and forms the public opinion, they did not affect the public confidence as could have been suspected. Thus, it could be questioned why the public confidence was not affected to a larger extent. Could it be that the criticism was too vague and was too distant from the daily life of the individual? In addition, the survey was carried out a couple of months after the articles were published and people tend to forget news like this very quickly. On the other hand, could the lack of impact on the public confidence be a result of that the existing confidence in the audit profession was at a very high level?

5.3. Contributing factors to the audit expectations gap
All respondents believe that an audit expectations gap exists between auditors and the public. However, reasons for the gap and how to decrease it differ among the respondents as well as among researchers. In addition, there are differing definitions of what the audit expectations gap is. We have based our thesis on the definition by Porter, which takes into account that auditors may not always live up to the expectations set neither by the profession itself nor by the society and this part Porter calls deficient performance. We believe this is a relevant measure since it cannot be assumed that auditors and audit firms never make mistakes. The three parts that contribute to the audit expectations gap according to Porter are unreasonable expectations of the society, deficient performance and deficient standards. The study by Porter showed that the unreasonable expectations of the society represented 34 percent of the audit expectations gap, while deficient performance represented 16 percent and deficient standards 50 percent. As stated in the methodology the percentages can be questioned since the study is relatively old.

According to the interviewed audit firms, the unreasonable expectations of the public are the main reason for the existence of the audit expectations gap. The main argument for the public’s
unreasonable expectations is that the public has a lack of knowledge about the role of auditors. According to existing regulations, the role of the auditor is to assure confidence in, and to lend credibility to, the financial statements. The auditor should give reasonable assurance of the true and fair view of the company’s financial statements in accordance with relevant reporting framework. However, users of audit reports generally perceive the audit function as broader than the audit function that is performed and even required by legislation. Gometz argued in Balans already in 1982, that the reason for the audit expectations gap primarily was that the public misunderstood the role of the auditor. Still today, the public in general does not see the difference between an accounting consultant and an auditor, according to Strömberg at RN. In addition, the public seems to believe that an auditor is a policeman that should detect all mistakes and frauds, while the auditors themselves use audit procedures that are based on materiality. This means that even though the auditors perform a correct audit it does not mean that all accounts that are audited are free from misstatements. It could be questioned why the auditors do not audit every detail when this is what is expected by large parts of the public. If the auditors did this detailed audit, the expectations of the public would be met in this respect and thus the audit expectations gap would decrease. However, this kind of audit would probably not be desired, neither by the audit firms nor by the audit clients. The reason is that it would not be cost-beneficial for the audit firms to perform those audits and the audit clients would probably not value this detailed audit and thus may not be prepared to bear the costs.

In addition, the public in general has a lack of understanding of how to interpret the various concepts, such as materiality, reasonable assurance and true and fair view, used in audit reports and this may further increase the audit expectations gap. These concepts are all vague and may be hard to interpret for someone who is not familiar with these concepts. E.g. how high level of assurance is given when the auditors state that they have given “reasonable” assurance? In addition, it may be hard for the public to interpret important concepts such as unqualified and qualified audit opinions. Unqualified audit opinions may be perceived by the public as if this is issued, the company in question does not have any financial problems. As a consequence, people may be upset if it is reported in media that such a company has serious financial problems. This misunderstanding increases the unreasonable expectations among the public, which thus increases the audit expectations gap.

Strömberg at RN argues that an audit expectations gap exists between auditors and their client companies. In addition, Jansson at Ernst & Young argues that the most important is that no audit expectations gap exists between the auditors and the client companies, rather than between the auditors and the public. This is a relevant argument, as even though the public generally has high
unreasonable expectations they are not really involved in the audit process anyway. The only respect where the expectations of the public are of interest is for those parts of the public that in one way or another invests in the stock market. However, the public interest in auditing seems to increase and thus, their expectations and viewpoints are getting more important. Those people are dependent on the audit and the audit report and if an audit expectations gap exists between them and auditors, then there is a risk that these investors may be more resistant to invest. In addition, it may be argued that if the audit clients’ confidence is high, this might reduce the negative reporting in media about the audit profession. As the public confidence is reduced by negative reporting in media, we believe that if such reporting is reduced, this will contribute to that the public confidence will not be decreased. Thus, good relations between auditors and their clients results in high confidence in auditors among the clients and thus results in high public confidence.

Even though Porter found that the deficient performance was the smallest of the three parts, as it represented 16 percent of the gap in her study, we believe that it is of high importance and one explanatory factor for the audit expectations gap. This means that auditors cannot always only blame the society for having unreasonable expectations, even though it represented 34 percent of the gap in Porter’s study. The auditors themselves are too part of the problem. The difference is that it is always harder to look at yourself in a critical way and find that maybe part of the problem lies on your own side. It is easier to criticise and blame others and demand that they should change. That 16 percent of the gap was due to deficient performance does not necessarily mean that a lot of auditors regularly perform poorly, rather it may be a consequence of mistakes and other circumstances. It could also be argued that most of these auditors are auditors not from the larger audit firms, but rather auditors from smaller audit firms or those who have their own firm. This could be seen by the number of auditors losing their authorisation, which is higher among auditors from smaller audit firms compared to auditors from The Big Four. The reason for this according to RN is that the auditors from The Big Four generally perform their audits with higher quality. Could another reason for the deficient performance gap be that the audit has been statutory for a long time and still is for the larger companies? It may be argued that this might impact the auditors’ performance negatively as their clients either way is obliged to engage an auditor. Of course the audit client could change auditors, but if the poor performance is of minor nature the inconvenience of changing might not be worth it. The results of the survey initiated by Far showed that some of the companies that were dissatisfied with their auditor stated that the reasons for this were, among others, that the quality of the audit performance was poor and that the auditor did not have enough knowledge in certain areas. These are areas were the audit profession could improve their performance in order to decrease the deficient performance gap and thus even decrease the audit expectations gap.
The final of Porters explanatory factors for the existence of the audit expectations gap is deficient standards, which represented 50 percent of the gap in her study. Media affects the expectations of the public and these expectations may change specifically after scandals. This is the reason why the audit profession takes action after scandals and both auditing standards and practice may be changed. However, there is a time lag of auditors in responding to these changed expectations and thus the audit profession may be criticised for not responding fast enough and this further contributes to the audit expectations gap. Moreover, the profession is criticised for only responding after scandals and thus for not having a prospective approach to audit quality. On the other hand, RN responds by arguing that actions are only demanded and desired after scandals. In addition, it may be argued that deficient standards are only visible after a scandal, as before something like that has happened it may not be known what kind of regulations that might be needed to prevent those scandals. Instead of decreasing the audit expectations gap, RN believes that increased regulations on audit rather enhance the gap as there are more details to consider. More details increase the risk of missing out one detail which will affect the confidence and increase the gap, even though this detail might not affect the audit in a material sense. Even though deficient standards account for half of the gap, The Big Four and Far do not believe that extended regulation is the solution to decrease the expectations gap. Instead, they argue that the audit profession needs to improve and develop the conformation of the current regulation. Of course part of the problem might be that the existing regulation is not complied with properly and that improvements are necessary of the conformation of the existing regulations. However, the argument of The Big Four and Far could be questioned as if deficient standards account for half of the audit expectations gap, the standards cannot be perceived as perfect. Thus there might be a need to increase and improve the regulation to meet the reasonable expectations of the public and thus decrease the deficient standards gap and thereby the audit expectations gap.

Other contributing factors to the audit expectations gap have been presented and one of them is the complicated nature of the audit function. Auditing is a complex field and in addition, the role of the auditor tends to evolve and change over time due to business failures and other contextual factors. The public may not be aware of in what way the audit function has changed and may thus have a lack of understanding of the existing role of auditors, as discussed above. The complexity of the audit in relation to a general lack of interest might make it even harder for the individual to get an understanding of the role of auditors. This might result in that the public has unreasonable expectations, which will contribute to the audit expectations gap. Another factor that could affect the audit expectations gap is the conflicting role of auditors as audit firms perform both audit and consulting services for the same client. This affects the gap as it can be argued that this will impair
the audit independence either in fact or in appearance. This results in that the public cannot trust that the auditor will act objectively, rather the public assumes that the auditor will act in self-interest and thus do not achieve the reasonably expected performance. Whether consulting services do impair the audit independence and thus affect the audit expectations gap has been heavily debated. This was another part that was criticised in the articles in SvD. According to the journalists, it is hard to be objective while one audit firm is performing both audit and consulting services within one company. The reason for why the audit independence might be impaired, both in fact and in appearance, is that consulting services tend to have higher profit margin than audit services and thus they are more attractive. However, all respondents claim that this will neither impair the objectivity nor the independence if the audit is performed in a correct manner with internal controls in place and in accordance with existing regulation. It can be argued that it is more efficient that the auditors who already have knowledge about the company should be able to advice in other matters than only audit.

Moreover, discussions have been held in the EU where Far claims that they do not believe that a prohibition on providing any, or just certain, non-audit services is necessary from an independent perspective. Nor would such a prohibition have a positive effect on audit quality. The opinions between audit firms are differing, as some claim that a prohibition of non-audit services would strengthen the audit independence, while others claim that non-audit services are crucial for the existence of smaller audit firms. The discussion has been going on for a number of years and will probably continue until there is a prohibition of non-audit services. However, it can be questioned whether or not it actually impairs the integrity and objectivity. So far, there has only been one case where it was proved to have an impact and that was in the Enron and Arthur Andersen case. It might be seen as rather remarkable that the audit firms which have the most knowledge about the company is not allowed to answer questions and guide them in times when help is needed. Would it be reasonable to hire another firm with no knowledge about the company in order to get help with those questions? This new firm has to get to know the client company which might be time-consuming and thereby costly. These costs would not have existed if the client company could have used one firm to perform both services. From a profit perspective it can be seen why the audit firms wish to keep the non-audit services. It might harm the independence, both in fact and in appearance if an audit firm has higher fees for the non-audit services than the audit. As most companies, audit firms aim to be profitable and do not wish to lose a client that generate large amounts of money. However, the audit firms claim, as mentioned before, that there are internal controls to prevent the independence from being impaired. Can these controls be trusted? If they can, then the public and client would not have to worry whether offering both types of services would impair the
independence or not. But what if the controls are not in order and do not detect circumstances that would impair the independence? Would this mean that the auditors’ independence might be harmed and could it mean that the auditor cannot be trusted at all? An impaired confidence in the audit profession might lead to an increased audit expectations gap.

In addition, the audit independence itself may affect the audit expectations gap as the gap may be enhanced by auditors not being independent enough as this affects the confidence as well as the performance which will increase the deficient performance gap. It may be argued that if the confidence is decreased, the public may think that the auditor may not achieve the minimum accepted performance and as a result, the deficient performance gap will increase, which will enhance the audit expectations gap. It has also been shown that auditors and user groups have differing views of what could jeopardise the audit independence, as user groups had much stricter views on situations that could affect the independence. This shows that even though the auditors are independent in fact, they might not be independent in appearance as a consequence of the user groups’ stricter views in independence. Thus, it is of major importance that the auditor remains independent in both fact and appearance, as the consequences of an impaired independence are both a decreased confidence and an enhanced audit expectations gap.

Another factor that contributes to the audit expectations gap is the retrospective evaluation of auditors’ performance, which takes place as the public is not able to evaluate the quality of an audit in any other way. This means that the small number of audits that are questioned get a lot of attention in media, while the audits of high quality will pass the public unnoticed. In addition, hindsight evaluation may not be a fair way to evaluate the performance of the auditors as the auditors may not have had all information available that is available at the time of the questioning of the audit. As a consequence, hindsight evaluation increases the unmet expectations and thus increases the audit expectations gap. In addition, reports in media of scandals and other occurrences affect the public confidence in the audit profession and further increase the audit expectations gap. For example, if a company goes bankrupt shortly after an unqualified audit report, media might build up an image that it was an audit failure. However, a business failure does not necessarily mean an audit failure even though this is what the public seems to believe. The reason for the bankruptcy might be other factors that would not be possible to find with the available information and if a company intends to hide something from the auditor it might be possible to do so. However, even though it might not be due to poor performance by the auditor, it is often the auditor that is blamed in media. This could be seen in the “scandal” with HQ Bank and their auditor KPMG in 2010. According to the audit firms, the facts presented after the “scandal” were hard if not impossible to acknowledge during the time of the audit and therefore it might be a mistake to blame the auditor.
When a part of the audit is taken out of its context it might seem questionable but in reality the audit might have been performed accurately and in accordance with the regulation. The auditor is often blamed since a scapegoat is wanted and due to the fact that audit firms normally have beneficial insurance deals. It might harm the audit profession if they are blamed in media for factors that might have been impossible to predict and even though they have performed an accurate audit. The public might not be interested in reading and exploring all the details about the case, and they might simply be satisfied with the information that is produced by the media. If this information does not cover the whole truth, it is easy to say that the public might have an incorrect view of the case and maybe even of the audit profession. Due to confidentiality, the auditor might not be able to inform the public about all the details and even if they could, the public might not be interested since it might be very complex. The public might as a result have an incorrect view of the role of the auditor and the content of the audit.

5.4. Suggestions to decrease the audit expectations gap
During the years, many suggestions on how to close the audit expectations gap have been presented and some of them have a defensive nature, while other suggestions have a more constructive approach. The audit profession in general has focused on the defensive approaches as they argue that the reason for the audit expectations gap is mainly the unreasonable expectations of the public. Thus, their suggestions on how to decrease the gap have focused on educating the public and informing about the “true” role of auditors, i.e. their view of what their role and responsibilities are. One way to educate the public is through the information in the audit report and thus suggestions have been to change the audit report or to extend it to include the aim of the audit, audit procedures and material issues among other things. This intends to increase the readers’ understanding of the audit and the role of auditors. Changing the wording means that the audit report is made more user friendly and will be easier to understand for non-auditors as terms and concepts are explained. This is a suggestion that the investors agree with to be a good solution. These two ways to educate the public might be an effective way to inform the readers as they have the possibility to learn how the audit is performed. However, if the intention is to actually educate the public, this is probably not the best solution as very few people among the public actually read the audit report.

Other suggestions have been more constructive and those are to increase auditors’ performance and to expand the responsibilities of auditors. If the performance of auditors was enhanced, it is very likely that the audit expectations gap would decrease as deficient performance actually accounts for 16 percent of the gap. The question is how to increase this performance as it has to be assumed that most auditors actually perform their work as expected by the audit profession and the regulations. It could be argued that more education of auditors and more controls and supervision would increase
the performance of auditors. However, the interviewed audit firms argue that their own educations and controls in the form of team work and peer reviews work well enough in preventing poor performance. In this respect they may be correct as, as discussed above, auditors from The Big Four generally perform audits with higher quality and thus do not have as much problems with poor performance. It could then be discussed that it is rather the smaller audit firms that might perform audits of questionable quality and might therefore be the main contributing factor for the deficient performance gap.

The other constructive suggestion is to enhance the role of the auditor and extend the responsibilities of auditors to meet the demands of the public. This could be a lasting solution to decrease the audit expectations gap as the deficient standards gap will decrease. However, it might be very costly for the audit client and the client might not even be willing to pay for all the services that the public demands. According to the banks, there is a need to review and clarify the role of the auditor. This could be a good solution as the expectations gap concerning the role of auditors seems to be the main issue according to the audit profession itself. It has been suggested that assessment of future-oriented information, such as the financial health of companies and certain risks the company faces should also be included in the auditor’s role. Since the audit is based on the financial statements which are historical numbers, it could however be discussed if the auditors will be able to assure and provide future-oriented information. Even though the stakeholders wish to have more of that information and the label of credibility that an audit will provide, it might be hard to live up to these expectations.

A solution to prevent that the audit client and the audit firm have different expectations of the audit, is to communicate and discuss the audit process in the beginning of the audit. As a result, client companies generally have a good understanding of the audit and the audit profession, according to Jansson at Ernst & Young. In addition, Strömberg at RN argues that one reason for the audit expectations gap is that the same kind of audit is performed in both large and small companies. This is in accordance to Lindstedt at Hemfrid, who claims that a full audit is not necessary for small companies. This might indicate that there is a demand of customised audits and that this would reduce the gap as a result of that the expectations of each company might be met to a larger extent. Moreover, all respondents agree in accordance with our review of the audit expectations gap in Balans that better communication and open debates will decrease the audit expectations gap. As the statutory audit for the smallest companies is now abolished this opens up the possibility for auditors to communicate their role and the advantages with audits, which probably will decrease the audit expectations gap. One can argue that this suggestion is mainly to try to inform the public about the role of auditors and thus decrease the unreasonable expectations. However, if the debates could be
used to discuss how to decrease all parts of the gap and how the audit profession and the society could meet halfway, the chances might be enhanced to actually decrease the audit expectations gap.
6. Conclusion

In this section the conclusion of the analysis will be presented and the problem statement will be answered. First, the questions concerning the audit expectations gap will be answered and finally, we will answer our questions concerning the public confidence.

6.1. Audit expectations gap

Is there an audit expectations gap in Sweden and if so, how can it be defined and explained?

Based on this thesis, we have concluded that an audit expectations gap exists. This gap has been defined in several ways by different authors. However, we prefer the definition by Porter and based on Porter’s definition, the audit expectations gap may be explained as the difference between what the society expects auditors to achieve and how society perceives the performance of auditors. Contributing factors to the existence of the audit expectations gap are firstly the three parts described by Porter, namely deficient performance, deficient standards and unreasonable expectations. Other contributing factors are the complicated nature of the audit function, time-lag in responding to changes, the conflicting role of auditors as a consequence of non-audit services, impaired audit independence and retrospective evaluation of auditors’ performance.

Have the articles in SvD affected the audit expectations gap in Sweden?

Media has a large impact on the public opinion and especially in the event of business scandals and other occurrences. This increases the public’s unreasonable expectations of auditors which thus increases the audit expectations gap. However, the articles by the journalists at SvD contained criticism of the auditors and audit firms and not of the audit performance itself and therefore we conclude that it did not have the same impact it might have had if the criticism was due to poor audit performance. We do not believe that the parts of the criticism about high compensation and the high number of audit assignments will affect the audit expectations gap to any larger extent. However, the areas that might affect the audit expectations gap are the criticism whether the controls made by Far and RN are objective enough as well as the discussion about non-audit services. To conclude, we believe that the articles to a small extent might have had some effects on the audit expectations gap. However, we believe that this effect was short term as people tend to forget about scandals and other occurrences relatively short after media has ended their reporting about it.

How might the audit expectations gap in Sweden be reduced?

Several suggestions have been made to reduce the audit expectations gap and one of them have been to educate the public through more communication, open debates and through a changed or
enhanced audit report, which is a more defensive approach. Other suggestions have been more constructive and include enhanced audit performance and extended responsibilities of auditors. The audit expectations gap has not decreased to any larger extent over the latest 30 years, even though a large number of solutions have been presented. We believe that to decrease the audit expectations gap, the audit profession cannot only blame the gap on the unreasonable expectations of the society. They need to review themselves, both in terms of deficient performance and in terms of their responsibilities as auditors. The open debate needs to shift from unreasonable expectations to other parts of the gap and thus the public, clients, stakeholders and auditors could meet halfway. We believe that the audit profession is rather conservative and as a consequence of the more or less statutory audit, the audit firms have not developed to meet the demands and needs of the market. We suggest, in order to decrease the audit expectations gap, that the audit profession needs to have a more constructive approach. In our opinion, the audit profession needs to accept additional or modified responsibilities demanded by the market, under the condition they are cost-beneficial and do not impair the audit independence. However, this might be limited by the restrictions from the EU and instead, the Swedish audit profession needs to lobby the EU in these issues.

6.2. Public confidence

Is there a crisis of confidence and if so; what is the nature of it?

The articles in SvD indicate that the audit profession in Sweden is exposed to a crisis of confidence. Usually in times of scandals it has been seen that the confidence decreases, partly as a consequence of the media coverage. Whether the articles in SvD did impact the public confidence or not, is something that our respondents have diverging opinions about. We believe that the articles did not create a crisis of confidence in the audit profession even though they started a debate. In our opinion, the articles had some negative effects on the public confidence during and shortly after the articles were published. However, the confidence in the audit profession seems to be high and we believe that, in order to decrease the confidence to any larger extent, something more severe than the criticism in the articles in SvD has to occur and be made public.

Is there a connection between the public confidence and the audit expectations gap and if so, what is the nature of it?

There seems to be a connection between the public confidence and the audit expectations gap. The audit expectations gap may affect the confidence, as if the audit expectations gap increases this will decrease the public confidence. This is an effect of that if the society’s expectations, both reasonable and unreasonable, are not achieved, the public confidence in the audit profession will naturally
decrease. In addition, decreased confidence might be an effect of impaired independence which might result in an increased deficient performance gap which in turn, increases the audit expectations gap. We believe that auditors need to be independent and that it is important that auditors aim to meet the reasonable expectation in order to enhance the public confidence. We argue that a high level of public confidence might limit the negative impacts that an increased audit expectations gap will have on the confidence.

What can be done to restore and enhance the public confidence?

The survey initiated by Far showed that the public confidence in the audit profession is high. However, we do not know the level of the confidence before the articles were published and as a result, we cannot say if the confidence was affected. Our opinion is that the confidence was negatively affected during and shortly after the articles in SvD were published, as stated above. Even so, we believe that the public confidence in the audit profession was restored without the need of any interventions, as a result of that people tend to forget about such occurrences shortly after media has ended their reporting about it, as stated above. However, the confidence in the audit profession needs to be maintained and enhanced in order to prevent and diminish the effects from future scandals and occurrences. Suggestions on how to enhance the public confidence are to assure that the auditor is objective, independent and has high integrity, that the control and supervision of auditors are performed objectively and that the audits are of high quality. The confidence could further be enhanced by better communication by auditors to the public and the clients regarding the role of auditors. We believe that rather than mass communication to the public, the confidence is enhanced in every meeting between auditors and their clients or shareholders. Thus, we argue that these meetings are opportunities to communicate their own and their clients’ respective responsibilities and that it is of high importance that the auditor is independent and has high integrity, in order to enhance the confidence.

6.3. Main conclusions

- An audit expectations gap does exist in Sweden and to decrease this gap, we suggest that the audit profession needs to lobby the EU in order to adopt a more constructive approach, such as accepting additional responsibilities demanded by the market.

- No crisis of confidence appears to exist but it is always desirable to enhance the confidence. We argue that the confidence is enhanced in every meeting between the auditors, their clients and the shareholders, where the auditors are independent.
• Although the confidence and the audit expectations gap were affected when the articles in SvD were first published, the articles do not seem to have had a lasting effect.
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8. Appendix - Interview questions

Public confidence in the audit profession: Questionnaire to Auditors

1. What do you believe to be your main tasks/assignments in the role as an auditor?
2. Are there, in your opinion, any differences between large and small listed companies in how they perceive the role of the auditor? What about unlisted companies?
3. How do you think the public perceive the role of the auditor? How well does that align with your own view? In your opinion, do the public have unrealistic expectations of the role of auditors? If so, what could be done to decrease them?
4. If a company goes bankrupt six weeks after the annual financial report has been issued, and the auditor has given a clean report, has the auditor done a bad job?
5. Do you believe that your clients and the public have a general confidence towards the profession? How has the public confidence in the audit profession developed during your career as an auditor?
6. Do you think that the public confidence in the profession was affected by the article series by Svenska Dagbladet (SvD) last year about the review of the audit profession? In what way and what are/were the main reasons?
7. What is your opinion about the fact that auditors offer both audit and consulting services? Do you think this might affect the objectivity and independence of the auditor?
8. If you think the public confidence has decreased, do you think that the decrease is justifiable, i.e. does it depend on weak performance, weak standards or do you think it depends on the public’s lack of knowledge about auditing?
9. In your opinion, what could be done to reduce the risk of underperformance of auditors?
10. What are your actions as an audit firm to maintain and increase the confidence?
11. Could these problems be adjusted in other ways? E.g. regulation and with the help of public authorities?
12. What is your opinion about increased external control of auditors?
13. Any other comments?