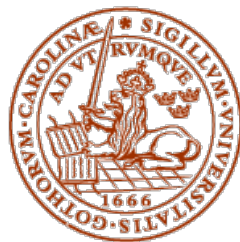


*Department of Business Administration*



**SCHOOL OF ECONOMICS  
AND MANAGEMENT**  
Lund University

**The revised audit report:**  
*Revision of international standards and its impact on  
communication between auditors and users in Sweden*

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Master's Programme in Accounting and Auditing

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# Abstract

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<b>Title</b>	The revised audit report: <i>Revision of international standards and its impact on communication between auditors and users in Sweden</i>
<b>Seminar date</b>	2016-06-01
<b>Course</b>	BUSN69 Degree Project - Accounting and Auditing
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<b>Supervisor</b>	Amanda Sonnerfeldt
<b>Key words</b>	Audit report, International standards, Audit reform, Sweden, Information Gap
<b>Aim</b>	The aim of the thesis is to understand the reforms on the audit report which are set in motion on the international level and the EU level, and analyse its influence on the quality of communication between Swedish auditors and the users of the report.
<b>Methodology</b>	In the thesis, a qualitative document study and a quantitative survey have been used in order to answer our research questions.
<b>Theoretical perspective</b>	The theoretical framework is based on audit theories, including the theory of decision usefulness. Literature on the audit information gap is also a part of our theoretical framework. With this in hand, we have developed an analytical model, which will be the base for our analysis.
<b>Empirical Foundation</b>	The document study reveals that the key stakeholders of the audit report are institutional investors and financial analysts. Our survey was sent to these key stakeholders and to certified auditors, all located in Sweden. Comment letters regarding the audit reform, were also a part of the empirical foundation.
<b>Conclusion</b>	The reason for the revised audit reform is that financial analysts and institutional investors demanded it after the financial crisis. The main objective, on the international level, is to improve the quality of communication between the users and auditors by reducing the information gap through a more transparent audit report. We can conclude that a revised audit report probably will reduce the gap between what the users demand and what is actually presented in the audit report in Sweden. If the information gap is reduced, the quality of the communication between the two parties will be significantly improved.

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Anna Wallin

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Emelie Jörlöv

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# Abbreviations

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ASB	Auditing Standards Board
CEO	Chief Executive Officer
EC	European Commission
EU	European Union
FEE	Federation of European Accountants
FI	The Swedish Financial Supervisory Authority
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IOSCO	International Organization of Securities Commissions
IR	Integrated Reporting
ISA	International Standard on Auditing
KAM	Key Audit Matters
PCAOB	Public Company Accounting Oversight Board
PIE	Public Interest Entity



# 1. Introduction

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## 1.1 Background

### 1.1.1 Audit quality and the value of an audit report

Mautz (1954) defines an audit as “an effort to discover whether or not the financial statements do actually portray the financial position and the results of operation of the company or institution under examination” (Mautz, 1954, p.3). An auditor is a person who makes an examination of accounting data in order to give an opinion as to the reliability of the data, which will be presented in a formal document called an audit report. The audit report is essentially a matter of communication, of conveying information and ideas to someone else. The auditor who creates the audit report has a message which he or she wishes to convey to those who will read the prepared report. The users of the audit report may have different intentions with the information in the audit report, some may use it for internal purposes, while some may have the intention of using it for external purposes. Therefore, users request different information within the audit report. It is important that the auditor is well aware of the fact that he or she cannot know all of the possible users of the report, and must therefore exercise considerable discretion in the preparation (Mautz, 1954). Further, Flint (1988) stresses that a huge dilemma for auditors is that they have a duty to communicate information, but also a duty to be clear and precise.

The communicative value, the design and the content of the audit report have been hot topics for researchers, both from a global and local perspective, for a long time. The purpose of an audit is to improve the degree of confidence of expected users of the financial statements. This is accomplished by auditors when they gather appropriate audit evidence and then express an opinion on whether the financial material is in accordance with financial reporting frameworks (IFAC, 2013). This opinion is presented in the audit report and the report is important for auditors when communicating to those that are affected by the information (IAASB, 2011). According to Gay et al. (2008), an audit is dependent on that the communicator, the auditor, and the user have shared meanings of the message being presented. Therefore, the format of the audit report is an important matter when looking at the value of the audit. In order for stakeholders to rely on the audit, they must believe in the auditor’s independence (Gay et al., 2008).

As a result of the global financial crisis in 2007-2008, the users of financial statements wish for more information concerning the audited companies and their financial statements. The financial scandals, which began with Enron and with the audit firm Arthur Andersen in the US in 2001, have quickly led to reviews of auditing standards and different reforms of audit reporting, by for example PCAOB and the IAASB (Kiss et al. 2015). The current development of the audit report has primarily been driven by politicians within the EU, who wanted to take actions due to the financial crisis. The IAASB has been compelled to join the development, since they wanted to avoid the establishment of two competing audit reports (Lennartsson, 2015). The international standard setters have proposed different changes to the standard audit report, due to concerns

regarding if the report properly expresses the right message about responsibilities, conclusions and nature of an audit commitment (Kwaku & Wright, 2012) The changes concern, for example, key audit matters, a description of responsibilities by auditors and management for going concern and a separate section for when a material uncertainty exists and is adequately disclosed (IAASB, 2015) These changes are further presented in chapter 5.

In some countries, such as the UK and the Netherlands, the implementation phase of the new and more transparent report has already begun, and the responses have been positive (EC, 2014) (PWC, 2013). The legal requirements in the member states within the EU must be compatible with the new audit policy by the 17th of June 2016 (EC, 2014). The requirements for the Swedish auditors and the audit process have changed due to new demands for auditors on the international field, mostly due to the implementation of EU's audit reform and IAASB's revised ISAs (FAR, 2015). The new Swedish audit report is based on Swedish law, new requirements from the EU, and standards developed by IAASB. FAR, a Swedish professional association for accountants and auditors, has in turn provided new audit recommendations, based on the new audit requirements (Lennartsson, 2015).

### 1.1.2 Debates regarding audit reporting

The main concerns in current debates regarding audit reporting are if the changes will lead to more valuable information being communicated to the stakeholders and if the new construction of the audit report will improve audit quality (IOSCO, 2009). Tony Gates, the head of audit at KPMG UK, says that the debates need to involve all stakeholders, including management, since an audit is an important part of the relationship between companies and their shareholders, as well as for the investor community since they are the ones that the audit report is addressed to (KPMG, 2014). According to the discussion paper by FEE (2016), the unanimous argument behind the new audit report is for the engagement with the stakeholders to be improved. There is a general agreement, throughout the discussion paper, that focus on the profession's engagement with its stakeholders is limited to regulators, and this should not be a disadvantage for other stakeholders (FEE, 2016). Moreover, PWC (2013) has released a paper where they give an overview of the new audit reform, and whereas the Australian assurance leader at PWC states:

*“Testing these changes in reality is the only way to explore the benefits and expose unintended consequences well in advance of changes in the standard.” - Peter van Dongen (PWC, 2013).*

Although the changes of the audit report will have a huge effect on the Swedish market, the debates concerning the changes have been, unlike on the international field, rather few (Lennartsson, 2013). Hjalmarsson (2015), an authorized accountant at PwC and the Chairman of FAR's Policy Group for audit, believes that the changes will have a minor effect in Sweden due to the fact that a lot of the information that will be covered in the new audit report, is information that the Swedish auditors already present at shareholder meetings. Hjalmarsson (2015) is very critical towards the change, however, he recognizes the fact that one have to look to stakeholders' interests and the fact that they demand more information from the auditors. Although the new

audit report will contain more information, there is a risk that the information only will be a matter of text, and not as valuable as imagined. The new information may be seen as information that any stakeholder could find in the audited company's annual report (FAR, 2015). Hjalmarsson (2015) claims that there is an inherent conflict within the new audit report. On the one hand, the audit report will consist of more information, but on the other hand an auditor can normally not give more information than what is already known, due to the risk of damaging the company that is being audited. FAR (2013) stresses the fact that several sources are critical toward the new audit report, because of the huge amount of information that might lead to interpretation problems. A too complex audit report might be impossible to understand and will therefore not be useful for stakeholders (Lennartsson, 2013). Brännström and Iredahl (2012), the general secretary of FAR respectively the audit expert at FAR, are also critical towards the change and believe that the EU could be making a mistake by implementing a rather unnecessary and complex audit report, which in turn will not be useful to the stakeholders. These points of debate raise the question of why a new reform is needed and how the new audit reform will affect the communication between various stakeholders and auditors.

## 1.2 Problematization and study contribution

Today, differences exist between users' expectation on an auditor and the financial audit, and the auditor's actual obligations, which has contributed to the existence of an audit expectation gap (IAASB, 2011). Another gap that is connected to the audit report is the information gap, which is the existence of a gap between the information users of corporate financial information believe is needed to make informed investments and fiduciary decisions, and what are available to them through the entity's audited financial statements or other publicly available information. The expectation gap and the information gap is not considered to be the same, but they overlap each other (IAASB, 2011). Auditors and standard setters have in their interest to guarantee that the gap, regarding to what is communicated by the auditor and the users interpretation of the committed material, will be as small as possible. If the gaps are too big, the confidence of the report will be destroyed and poor decisions could be made by the users (Kwaku & Wright, 2012). Due to the complexity of assessing the quality of the audit, the current report does not contain information about the auditor's judgements when setting their final opinion (IAASB, 2011). The main purpose of the new audit report is to reduce the information gap, and international regulators are focusing on strengthening the value of the audit through adding more and improved information to the report (Church et al, 2008). However, Lennartsson (2013) claims that although the aim of the change is, among others, to reduce the information gap, the effect of the implementation could be the opposite.

During the years, the audit report has been revised several times in an attempt to reduce both the expectation gap and the information gap, but today, there still exists a gap between the users of the audit report and the auditors that communicate through the report. Audit standards, such as ISAs, provide an important basis supporting audit quality, but most of the requirements either provide a framework for judgement made in the audit or need judgement in order to be properly applied. Therefore, the audit process relies on competent individuals that are using their experience and applying objectivity, integrity and scepticism in order to make appropriate

judgements that are supported by circumstances and facts of the engagement (IFAC, 2013). Further, the current audit report has been criticised for being viewed as a pass or fail report, due to the form and wording. The message brought by the audit report, beyond the pass/fail, has therefore been questioned by both academics and regulators (Church et al., 2008). The auditor's opinion is fundamental, but it is acknowledged that the new report should be more transparent about what actions the auditor performs in their audit mission and how the conclusions have been drawn (Kwaku & Wright, 2012). Church et al. (2008) shed a light on the concern regarding the fact that the current audit report provides little communicative value for users. Today, the users do not seem to fully understand the responsibilities of the auditor, the extent of their work and the level of assurance provided by the report, and therefore improvements to the report are called for (Church et al. 2008).

A large portion of previous research covers the field of the audit report and the audit expectation gap (Ruhnke & Schmidt, 2014; Vanstraelen et al., 2012; Litjens et al., 2015; Porter, 1993). These studies contribute to our research mainly on an international level and on the relationship between international standard setters, stakeholders and auditors. However, it does not exist as much research regarding the audit information gap. An area which we believe is under-researched is the literature regarding the Swedish perspective on the audit information gap. To focus on the audit report from an individual country's perspective is important when evaluating how international reforms are used, and reactions from the parties concerned. One standard can for example work perfectly in one country, but could have a negative effect on another, which makes it hard for international standard setters to find a global standard that fits all concerned countries. Our research will therefore bring more focus on the new audit report, both from an international and a Swedish perspective.

### 1.3 Aim and research question

Based on the problematization, the aim of the thesis is to understand the reforms on the audit report which are set in motion on the international level and the EU level, and analyse its influence on the quality of communication between Swedish auditors and the users of the report.

In order to carry out the aim we have formulated two research questions, which are as follows:

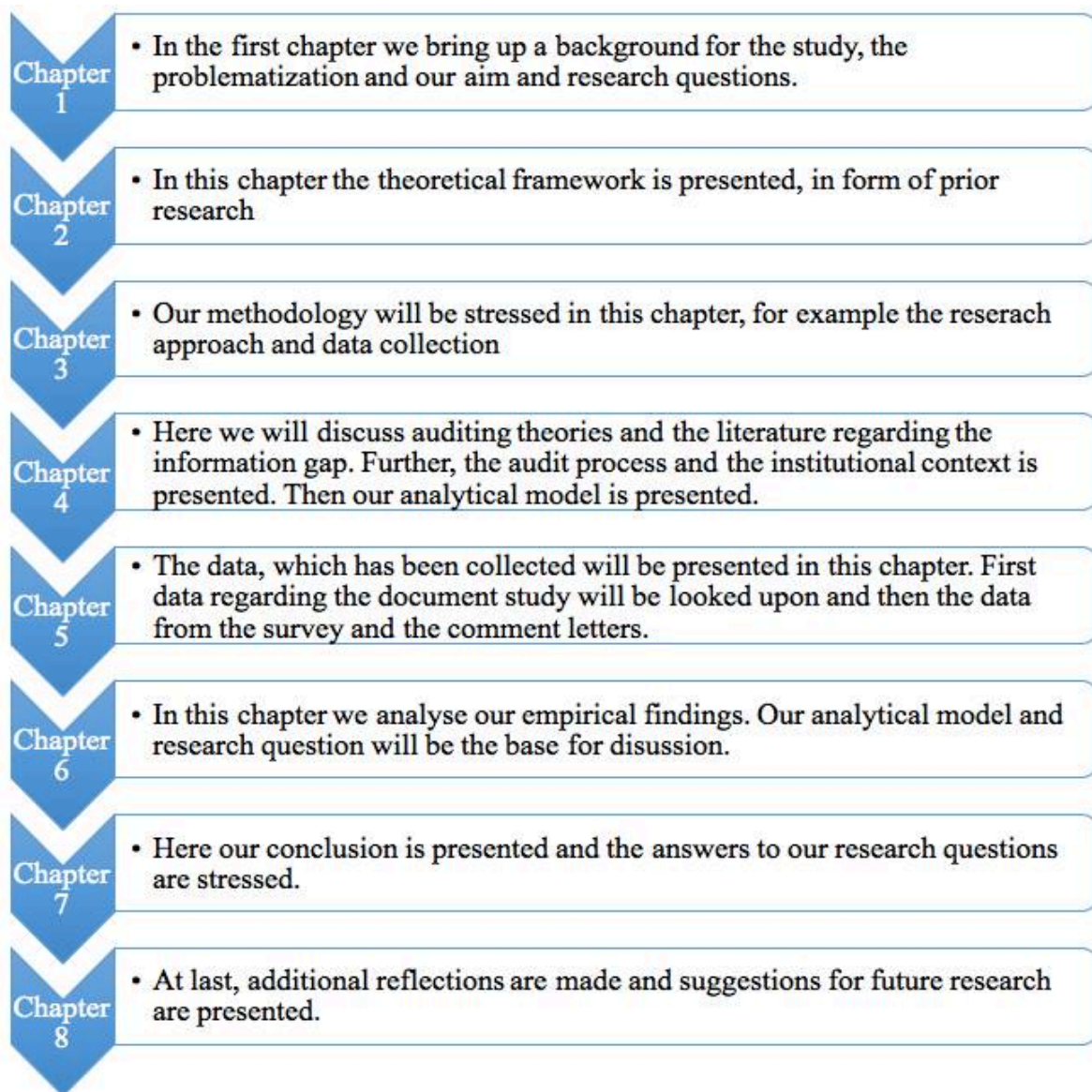
1. *What are the reasons underlying revision in audit report requirements by the IAASB and the EU?*
2. *How will revision, on an international level, affect the quality of communication between Swedish auditors and the users of the report?*

### 1.4 Research Limitations

In our research, we will study a particular context where Sweden will be used as a case country. Our main interest is the Swedish context, which is the focus of our second research question, and in order to do so, we have to explore the reasons underlying revision and therefore answer our first research question. Further, the thesis will focus on international studies, that in a great extent have affected the Swedish changes regarding the audit report, and discussions and research that

have been done by IAASB and the EC will be taken into account. We will discuss and analyse the information gap in order to see how international revision will affect the quality of communication between auditors and users in Sweden. As mentioned in the background, the implementation of the new audit report has already been exercised in the UK and the Netherlands, but research on these countries will not be studied any further in this thesis.

## 1.5 Structure of the thesis



## 2. Theoretical framework

*This chapter focus on prior research. At first, the definition of an audit and the value of audit reporting are presented. Then, a discussion regarding the audit expectation gap will be done, and then the stakeholder view of audit reporting is presented.*

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Flint (1988) states that an audit is a social control mechanism for securing accountability. The burden is on auditors and audit policy-makers, and the way that they constantly seek to find societal need and at the same time have expectations on them to do an independent audit. The problem is, according to Flint (1988), that auditors must effectively communicate the performed audits to people with limited or no technical understanding. In addition, this will require the auditors to express themselves with such technical precision that it is clear which considerations that are being made, and also the limitations of the audit. Further, the technical understanding among stakeholders differ. It is therefore of great importance that the auditors meet their own professional requirements, while using a language that the stakeholders understand (Flint, 1988).

Audit reporting and the value which the audit report creates have been up for discussion for several years. Church et al. (2008) claim that the audit process is affected by factors that can be seen as irrelevant, such as a specific auditor performing a task, and a sequence of evidence collection. They also found that the way accounting standards are based (principles/rules) can have an impact on the audit process regarding the negotiations between the auditor and the client. Church et al. (2008) conclude that the audit report has a symbolic value, but little communicative value. To summarize, prior research call attention to increased information, which probably will improve the audit report. The main objective for the current audit reform is to reduce the information gap between the information available and the information wanted, unlike the objective for the former changes, which have been to reduce the audit expectation gap (Mock et al., 2013).

### 2.1 The audit report and the audit expectation gap

Research regarding the audit report as a part of closing the audit expectation gap has been many. Ruhnke and Schmidt (2014) have done a research concerning the audit expectation gap, which was based on surveys and administered in Germany in 2011. The survey was sent to auditors, academic faculties, financial journalists, investors, bank representatives, management representatives and supervisory board members. The authors focused their empirical study on three main areas, namely the public's expectations of the independent audit, auditor's responsibilities as perceived by auditors and auditor performance as perceived by the public (Ruhnke & Schmidt, 2014). A study made by Litjens et al. (2015) examined the audit expectation gap, how it can be explained, and how it can be reduced by a revised audit report. They base their findings on a survey in the Netherlands that consists of participants that are bankers, preparers and auditors (Litjens et al. 2015). Vanstraelen et al. (2012) studied the audit report and examined if there is a general agreement between the users of the audit report and the auditors regarding the content and format of the report. The authors claim that prior audit reporting reforms have failed

since the two parties [users and auditors] did not have a common ground. The authors based their study on interviews with users and auditors from different EU member states and then presented an alternative audit reporting model that they believed could reduce the information gap and increase the transparency (Vanstraelen et al., 2012).

Ruhnke and Schmidt (2014) conclude that strategies, which are being adopted in order to reduce the expectation gap, might be impossible due to the fact that the environment of financial statements and social roles are in constant change and so is the need for audit change. The audit profession works towards strengthening their legitimacy, mainly by filling the public's interests, or at least accepting the excessive expectations. Thus, the authors conclude that audit reforms may only be seen as strategies to achieve the objective instead of reducing the expectation gap (Ruhnke & Schmidt, 2014). Litjens et al. (2015) look at the problem in another way and conclude that the problem is a mismatch between the solutions and problem with the audit expectation gap; while the audit profession tries to fix the gap by giving more information, the bankers want the auditors to meet their expectations. Today, the main question is whether the audit report communicates suitable information to stakeholders, and if the content and format of the report strengthens audit quality (Litjens et al., 2015). Vanstraelen et al. (2012) conclude that the expectation gap has been an acceptable argument averting reforms in the field of audit reporting. The most common argument for the reforms is that the users of the report do not understand the function of the report and therefore do not understand the audit report as a whole. The authors found that persons who support this argument are not able to see the value in improving audit quality or changes in the audit report, since they mean that the users need to be educated in order to understand the audit report better (Vanstraelen et al., 2012).

Vanstraelen et al. (2012) have also observed that dominant users of the audit report are sophisticated investors, which means that the audit expectation gap is not an education gap but more like a performance gap. The lack of transparency in audit quality is a driver for a more informative audit report. Ruhnke & Schmidt (2014) state that the expectation gap can be useful in order to drive a constant reform, but may also be harmful if the expectations are unjustified and may even lead to reforms that demand auditors to accept responsibilities that will not bring any benefits. Therefore, Ruhnke and Schmidt (2014) suggest that the audit profession and audit regulators should shed light on the fact of the cause of the expectation gap and why it even exists in the first place. Further, Litjens et al. (2015) propose that the audit profession shall innovate and cultivate audit work in order to meet the expectations of the users of the financial statements. According to Litjens et al. (2015), the IAASB did a mistake when providing the new audit report, since they did not recognize a quality factor called "reducing the audit expectation gap", which may be one of the foundations of the problem. To develop a clear definition of audit quality would be helpful for the auditors since this could mean that they have a clear goal to strive after, but the IAASB are cautious with such a definition because of 'lack of consensus' (IAASB, 2014, p. 2) (Litjens et al., 2015).

## 2.2 Stakeholder perspective on audit

Several authors have looked at the audit report from a stakeholder perspective. Carroll (1989) defines a stakeholder as an individual or a group that claims to have one or more stakes in the business. Just like the stakeholders may be affected by the actions, decisions, policies, or practices of the business firm, these stakeholders may in turn also affect the organization's actions, decisions, policies or practices (Carroll, 1989). Ahlstedt and Jahnukainen (1971), cited in Strand, 2013) define stakeholders as "those individuals, groups of individuals and societies who driven by their own interests and goals are participants in a firm, and thus depending on it and whom for its sake the firm is depending.". They also claim that the typical stakeholders of a firm are the owners, management, employees, customers, suppliers, financiers, government, community and the state, which is illustrated in figure 1.



Figure 1: The stakeholders of a firm (Strand, 2013)

It is important that all stakeholders have access to information of how companies affect them, even if they do not have any use of the information (Deegan & Unerman, 2011). In order for investors, creditors and other stakeholders to have confidence in the financial statements provided by companies, the company gives interested parties access to an auditor's expert and independent opinions on the fairness of the published financial statements (Hayes, et al., 2014). This information is provided in the audit report, which is communicated to different stakeholders. It is assumed that all stakeholders have an interest in the major actor (the company in question). The relationship between the main actor and stakeholders must be based on mutual dependence, and the dependence should be to ensure that stakeholder's needs are met (Deegan & Unerman, 2011).

Mock et al. (2013) have done a study, which is based on a previous paper by Church et al (2008), and the methodologies used in the study are surveys and interviews. Their review of audit reporting is based on the affirmation of a gap between the information provided to the users regarding the financial statements and the perceived information by the users. The authors have found that earlier literature provide mixed results regarding stakeholder views on the audit report. Asare and Wright (2009) find, for example, that the audit report is seen as useful to those that make decisions by providing evidence which the financial statements do not contain any material misstatements and that businesses will continue as a going concern. Gray et al. (2011) have on the other hand questioned if the audit report is sufficient. In their study financial statement



preparers, external auditors and users of the report have been participating. According to their study, they found that the communication in the audit report was unclear and that the investors, to a great extent, misunderstand the concept of materiality. One way to minimize the information gap could therefore be to have an additional auditor's disclosures that are related to materiality (Gray et al., 2011, Coram et al., 2011).

Litjens et al. (2015) found that stakeholders fall back into prior strategies very easily, mainly as to maximize their own value. For example, management is unwilling to give sensitive information to the auditor, the bankers want increased information and the auditor tries to reduce the risks. The authors observe that the changes in the audit report format are not valued highly by bankers and does therefore not affect them, but a format change is important for auditors and managers. Moreover, they conclude that bankers request information on the business and the audit process, but the additional information may not reduce the bankers audit expectation gap. Findings from a study done by Vanstraelen et al. (2012) display the existence of the information gap is not just about 'the more information the better'. Users of the audit report believe that the current report is value-adding, but that it could be improved by clarification of the scope of the audit, financial statements and the level of assurance. Further, the findings are that the auditors are ready to provide more information in the audit report, in order to reduce the expectation- and information gap. Moreover, the auditors argue that additional information to users will lead to higher costs regarding time and resources (Vanstraelen et al., 2012).

Litjens et al. (2015) state that research is a key factor for adding more value to users and to gain information about the dynamics of the demands on audits. A dynamic relationship leads to more participation by the stakeholders when deciding the objectives of the audit and the audit process. Moreover, Vanstraelen et al. (2012) conclude that we today have a complex global business environment, which leads to new challenges for auditors in relation to the users of the audit. Overall, to change the format and wording of the audit report is not considered to be enough, but a change in the business reporting model is necessary, for example IR and real-time reporting, in order to change the meaning of an audit. The main objective of previous modifications of the audit report have been to reduce the expectation gap, but the new change will instead narrow the information gap (Vanstraelen et al., 2011). An information gap can be defined as "the existence of a gap between the information the users believe is needed to make informed investments and fiduciary decisions, and what is available to them through the entity's audited financial statements or other publicly available information" (Vanstraelen et al., 2011). In accordance with previous articles, Vanstraelen et al. state that the main question is whether the standard audit report communicates relevant information to stakeholders, and if the content and format of the report creates audit quality (Vanstraelen et al., 2011).

## 2.3 Chapter summary

This chapter covered the literature about the audit process, the way that the audit report may reduce the expectation- and information gap. Thereafter, a stakeholder perspective on the audit report has been presented. First of all Flint (1988) and Church et al. (2008) define what an audit is. Thereafter Ruhnke and Schmidt (2014), Litjens et al. (2015), and Vanstraelen et al. (2012)

present the audit expectation gap, the concerns regarding the gap and how it may be reduced. Regarding the stakeholder view on the audit report, this section defines a stakeholder, which is done by Carroll (1989) and Deegan and Unerman (2011) and then discusses research done by Mock et al. (2013); Church et al. (2008); Grey et al. (2011); and Vanstraelen et al. (2011), in order to see which stakeholder have been most involved in the discussion regarding the format of the audit report and what these stakeholders have requested.

## 3. Methodology

*The following section contains a description of the approach for the study. The chosen methods are described, and how these will be used in order to answer our research questions. The chapter also includes a description of our approach towards analysing our empirical data. Lastly, a discussion is made regarding generalisation, validity, reliability, and limitations.*

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### 3.1 Research approach and strategy

The purpose of this thesis is to understand the reforms of the audit report and to analyse its influence on the quality of communication between Swedish auditors and the users of the report. In order to accomplish this purpose a multi-strategy research has been chosen which we believe is an appropriate strategy for answering our research questions. A multi-strategy research is a combination between quantitative and qualitative research, and occurs when the researcher cannot rely on either a quantitative or a qualitative method alone and must support his or her findings with a method drawn from the other research strategy (Bryman & Bell, 2003).

The approach to our multi-strategy research is facilitation, which means that one research strategy is implemented in order to support research using the other research strategy (Bryman & Bell, 2003). In our study qualitative research will facilitate quantitative research, because qualitative research is helpful as a source for idea which can later be tested using a quantitative research strategy (Bryman & Bell, 2003). We have, through a document study, identified why a new audit reform on an international level will be implemented, and then used this information in order to create our questions for the survey. According to Bryman & Bell (2003) the arguments against a multi-strategy research are that quantitative research and qualitative research have different perspectives on how the social reality should be studied, and the idea that quantitative and qualitative research are two separate paradigms. To have in mind when doing a multi-strategy research is that it must be competently designed, and that it must be appropriate to the research questions or research area with which we are concerned. Therefore, we have collected information regarding the audit report on an international level through studying documents by the IAASB and the EC, and for the Swedish level by studying documents by the Government and FAR. With this information as a base, we have constructed a survey which will be used in order to collect opinions from Swedish key stakeholders regarding the audit report. Lastly, comment letters to FAR's consultation paper will be studied in order to collect various opinions from Swedish stakeholders. What this research offer is a combination of static (from a quantitative research) and processual (from a qualitative research) features (Bryman & Bell, 2003).

Additionally, this study has an abductive approach since the empirical and theoretical data will be updated continuously as our research progresses. Abduction is about creating studies with elements of both induction and deduction. Inductive approach is only based on empirical material to create conclusions. A deductive approach is based on theoretical hypotheses to test the

empirical material. The abductive research approach includes a variety of empirical and theoretical research. Shifting perspective on the study during the research process creates a link between empirical data and theory, which develops new approaches (Alvehus, 2013).

The research will be conducted in accordance with the ideas of the positivism, which focuses on social science research with elements of science, which will generate a width and a generalization of our research (Denscombe, 2009). According to positivism, the empirical evidence is objectively available, creating opportunities for all people to be able to see and observe the material. Positivism creates explanations and simplifies the process of discovering patterns in the collected empirical data by empirical generalization. The spirit will be carried out in our research through a quantitative survey, and in addition a qualitative document study, where the empirical generalization can come to terms. (Denscombe, 2009). The empirical generalization is done by comparing, generalize and draw conclusions from empirical data through the survey and data from our document studies.

## 3.2 Data collection

Our data collection process includes three phases, as shown in figure 2. Our primary data, data that are collected through different research methods by the researchers themselves, has been collected through a survey and a document study of comment letters. Our secondary data, e.g. other available data previously collected by other researchers with other aims than the current research, has been collected through a document study of documents by IAASB and the EC (Christensen et al., 2010).

The first step in our data collecting process was a document study, which included IAASB's consultation paper called "Consultation paper: enhancing the value of auditor reporting: Exploring options for change", which concerned IAASB's mindset regarding the new audit report. We chose IAASB's consultation paper since the IAASB is the main international standard setting body, regarding assurance and auditing. As a complement, we studied EU's consultation paper called "Green Paper. Audit Policy: Lessons from the crisis", which concerned the mindset of the EU regarding the new audit report. We chose the EU's consultation paper, which is provided by the EC, since they are the main force behind the European change of the audit report. We also studied FAR's consultation paper and their suggestion of a new format of the audit report. The information released by IAASB and the EU have been the basis for our study, since their mindset affect the Swedish context. By studying these documents, we were able to identify the main reasons behind international change of the audit report, as well as key stakeholders who actually demand the change. The information we received by studying these publications were used in order to design our research in the Swedish context. The consultation paper by FAR were used in order to find the Swedish mindset and construction of the revised audit report, and use the information we received to create our survey.

The second step in our data collecting process was to construct and send out a web-based survey. The survey was sent to key stakeholders who were identified in our previous document study

(step 1 in figure 2). This was done in order to see if the quality of the Swedish communication between users and auditors was affected by the international revision.

The third step in our data collecting process consisted of an additional document study. As a complement to the responses in the survey, we studied comment letters written by Swedish stakeholders regarding FAR's Consultation Paper. As a result, we were able to gain information about the opinions and general thoughts on the revised Swedish audit report from Swedish stakeholders, whom we could not have come in contact with via the survey.

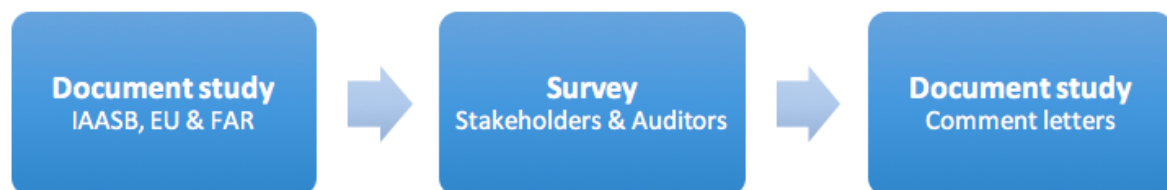


Figure 2: Data collection process.

### 3.2.1 Document study

Our qualitative data was collected through a document study of consultation papers and comment letters. Before the data can be used for research purposes, the data must be collected, processed and sorted in order for data to be used for analysis (Denscombe, 2009). In order to prepare the data for analysis, we read all the documents that were going to be used for our document study. During this process, we searched for specific subjects within the consultation papers and other documents from the international- and Swedish standard setters, which were necessary in order for our research to proceed. This included, for example, the reasons behind the revision and the stakeholders who demanded the international change of the audit report. This was important since the entire research was built upon this information. As for the empirical data found in the comment letters, this was used in a later stage in our research process. The next step included the actual analysis of empirical data which was based on our analytical model (see section 4.5). After we had analysed our empirical data, we prepared the data in order to be able to present it to the readers of our report. As for the comment letters, we took the most significant comments and presented them in a separate section, in order for the reader to be able to easily follow the content of the thesis.

In order to answer our first research question, we analysed publications that had been published by international regulators. Several documents were studied in order to grasp the entire process, which is explained in section 3.8. However, two documents were mainly used in our document study; IAASB's "Consultation paper: enhancing the value of auditor reporting: Exploring options for change" and the paper released by the EU called "Green Paper. Audit Policy: Lessons from the crisis". More detailed information regarding these regulators and their impact on the Swedish audit report will be presented in chapter 4. By studying these documents, we were able to answer our first research question; "What are the reasons underlying revision in audit report requirements by the IAASB and the EU?". We identified the main reasons behind the international change of the audit report, as well as the stakeholders who demanded the change.

The collected empirical data and the reasons underlying revision by international regulators, were the basis for the continued study of the Swedish context. The questions and the identified respondents for our survey were influenced by the information gathered through the document study.

A document study was also used in order to answer our second research question; *“How will revision, on an international level, affect the quality of communication between Swedish auditors and the users of the report?”*. Documents by the Swedish Government were collected and analysed, and so were they recommendations by FAR, which will further be presented in chapter 4. Additionally, comment letters written by various Swedish stakeholders (mainly governmental bodies) were studied, as a response to FAR’s consultation paper, which concerned the revised Swedish audit report. The comment letters answered the following question (which was issued by FAR in the consultation paper); *“Will implementation of the new audit report cause any problems for the users of financial statements and audit reports, preparers of financial statements, and the auditors?”*. These documents were used as a complement to the empirical data collected from the survey in order to collect additional opinions regarding the revised audit report. By analysing reliable secondary data in terms of published material from reliable regulators, and comment letters from various stakeholders, the reader of the study will get a deeper understanding regarding the reasons underlying revision of the audit report.

### 3.2.2 Survey

Our quantitative data was collected from the answers we received in the survey. Before analysing the data, we had to prepare the data. Since the questions and content of the survey were created on the basis of the information we received by analysing the consultation papers and other legal documents, we based our information on international standards and the current and the revised Swedish audit report. We looked for obvious correlations between the different stakeholders and the auditors, thus our respondents. We presented the qualitative data in tables and in figures, for the reader to be able to interpret our findings.

We decided to use a survey as a quantitative method for the data collection since a survey did not limit us to only local respondents, as a result we were able to reach respondents from all over Sweden, which in turn had a positive effect on the amount of responses. According to Bryman & Bell (2013) surveys, unlike personal interviews that only provides a limited selection, give the researcher the advantage to get a selection that is geographically spread.

We chose to do a web-based survey, which operate by inviting potential respondents to visit a web site at which the survey can be found and completed online (Bryman & Bell, 2003). The reasons behind doing a web-based survey are several; no costs are necessary for the researcher, fast response, it has an attractive format, it is not unrestricted to parts of Sweden, it can be designed in a way that some questions only appear when the respondent answers “yes” on the question before. A web-based survey also makes it easier for us, as researchers, to compile the information and to affect the number of total responses (for example by sending out reminders). The disadvantage of selecting a web-based survey is that the material is very superficial and one

cannot analyse this quantitative method to the same extent as with qualitative research methods. (Denscombe, 2009).

### 3.2.2.1 Selection of respondents

In order to select future respondents for our survey, we studied documents by IAASB and the EU in order to see who demanded a new audit reform, and their arguments behind the demands. The survey was going to answer our second research question, which is as follows; *“How will revision, on an international level, affect the quality of communication between Swedish auditors and the users of the report?”*

The second research question concerned Sweden as a case country, particularly the Swedish stakeholders and auditors. The key stakeholders of the audit report were financial analysts and institutional investor, such as banks, investment firms and insurance companies and those who work with loans. Further in the thesis, we define banks as those who are working with financial consulting, that do not include loans. The survey was also sent to auditors, namely approved and certified accountants, which will be explained later. The reason for including auditors in our survey was mainly in order to see if the quality of communication between the auditors and the stakeholders will be affected by the new reform.

### 3.2.2.2 The design of the survey

The web-based survey was our primary data collecting method. We chose to have two versions of the survey, where one was sent to identified key stakeholders and the other to auditors. The survey contained eight questions for the auditors, respectively nine questions for the stakeholders. The survey was used in order to collect various opinions from stakeholders and auditors regarding the new audit report in order to analyse how the revision will affect the quality of communication between Swedish auditors and the users of the report. Since we are well aware of the fact that this particular time-period is very hectic for both the auditors and the stakeholders, we took this into account when the survey was created. For example, we only focused on a few key questions that we believed were absolutely necessary for this study. It was important for us that the respondents would not be discouraged from participating, and therefore we were very careful to ensure that the survey was not too time-consuming nor burdensome for the respondents. Before the respondents started the survey, we informed them about the meaning with the survey and the aim of our study. The survey consisted of both open and closed questions. Open questions give the respondent the opportunity to express his/her opinions. Closed questions take significantly less time to answer and will help us collect the most basic data. The questions were not mandatory, which means that the respondents were able to scroll past them, due to some ethical considerations, which will be further explained in section 3.6. A combination of open and closed questions are considered to be the best combination, since only including open questions can become too burdensome for the respondent and the interest to participate might cool (Denscombe, 2009).

The survey was made in two versions, in order to adjust the questions to the conditions of the two groups of respondents. One version was sent to stakeholders of the report, namely institutional



investors and financial analysts, and the other version was sent to auditors. The questions within the two surveys were almost identical, except that the background questions for the stakeholders and the auditors differed. The background question which concerned the years of experience was included in both versions. As for the stakeholders, we constructed a question concerning their profession in order to discern the respondents, since the term “stakeholder” is a broad term and may include any profession. As for the version for the auditors, we included a question regarding which companies they worked mostly for (small- and medium sized companies, big Swedish companies, or international companies), since this might have an effect on the outcome. The survey for the auditors contained eight questions, whereas the last question contained a field where the respondents were able to write their contact information if they wanted to receive our final draft of the thesis. The survey for the stakeholders contained nine questions, whereas the last question was the same as for the auditors. The survey for the stakeholders contained one additional question, which was; “*How do you use the audit report within your profession?*”. The reason for including this question was in order to find out how the stakeholders use the audit report. We excluded this question in the survey for the auditors because it is obvious how they use it, since the report is a part of the audit process.

The questions regarding features of the current audit report and what features the respondents would like to see in the revised audit report, contained several options. The options regarding the current report, were based on the information available in the Swedish audit report as of today. The options regarding what features they believe are valuable, were based on what features the revised audit report in Sweden will contain, according to FAR’s consultation paper (see appendix 7). The reasons behind every question will be explained more thoroughly in chapter 5, where the results from the survey will be published as well. In appendix 1-4 the survey, both in Swedish (original) and in English, is presented.

### 3.2.2.3 Implementation

We opened the survey on the 29th of April. The survey for the stakeholders was sent to 218 respondents and the survey for the auditors was sent to 253 auditors. According to Bryman & Bell (2013), sending out reminder emails have a significant effect on the responses and reduce the amount of shortfalls. With this in mind, we sent one reminder to those who had not answered our survey. This email was sent on the 2th of May and resulted in 46 additional responses. We closed our survey on the 5th of May, since the amount of respondents started to fade. We had then got 75 responses in total.

## 3.4 Analysing data

This section will explain the criteria we have used when analysing our empirical data in order to answer our research questions. These criteria were constructed in order for us to be able to focus on the most relevant parts and that the information would contribute to our study. As for our first research question, we used the following criteria; the reasons underlying revision for each authority, who demanded revision and the actual requirements for each authority and what was done by these authorities. As for our second research question, we used the following criteria; what is the quality of communication defined by, what are the reactions from Swedish



stakeholders and auditors and how are Sweden different. With help of these criteria we were able to analyse and build our conclusion upon the most relevant information.

We used an univariate analysis for our quantitative data, which means that we analysed one variable at the time in the survey (Bryman & Bell, 2003). According to Bryman and Bell (2003), diagrams is the most common method when presenting quantitative data, mostly since they are relatively easy to understand. For the presentation of our quantitative data, we used tables, pie charts and graphs, since we believed these presented our data in a reasonable and a comprehensible manner. Pie charts show the relative size of the different categories but also each slice relative to the total sample. As for our tables, we presented the arithmetic mean, i.e. we summed up all the values in a distribution and then divided them by the number of values (Bryman & Bell, 2003). Tables were also used when we summarized the data we collected through our document studies.

### 3.5 Reliability, Validity and Generalisation

According to Denscombe (2009), it is important to prove to the reader that the research is reliable. To achieve a high degree of reliability, there are a number of key aspects that researchers must take into account when collecting information. The researcher must be certain of the fact that the study examines what the researcher intends to study, thus the study is seen as having good validity. The researcher also has to be certain that the empirical data is collected in an accurate way, since this will contribute to good reliability in the study (Denscombe, 2009). Further, reliability is based on how reliable the result is and if the result had been the same if the the research was conducted again. Stability, which is a cornerstone of reliability is an important factor for the result to be reliable, also that the responses should be consistent and not occur by chance (Bryman & Bell, 2013). Thus reliability in our study is mostly current in our survey, where we used a quantitative method.

We believe that reliability in our survey can be seen as good, since the entire sample group answered the same questions and had the same response options, except for the background questions (what/who you work for). The formulations were clear and the respondents did not express any noticeable problems with interpreting the questions. A prerequisite for the collected material to be considered reliable is that a sufficient number of respondents chose to participate in the survey. This is because a large loss and a low level of answers might question the credibility of the investigation (Bryman & Bell, 2013). In order to reduce this loss a new survey was sent out during the collection period to those that did not answer the survey the first time. We thought that it was important to communicate the importance of a high participation for our study to be credible. The survey was also designed not to take more than 3-5 minutes with eight respectively nine questions. Despite the reminders and a relative small survey, the non-responses were 78,4 % (171) for the stakeholders and 88,9 % (224) for the auditors. Further, some of the respondents did not carry out the entire survey. Two reasons for this shortfall can partly be lack of time, mainly for the auditors since they have their most stressful period this time of the year, or lack of interest. See more about the shortfall in part 3.8. To strengthen the reliability of empirical study, a clear criterion for the selection of respondents have been set at an early stage, which is presented

more in part 3.2.2.1. These criteria ensure that the respondents have both experience, knowledge and insight in the audit report.

Validity is another important criterion which involves measuring what is specifically relevant in the context. Validity means that measurement, which is used in the research, must comply with the specific concepts the study is focusing on (Bryman & Bell, 2013). Our data collection is based on the aim and research questions of the study. First, we looked at prior research in the area and then read documents by IAASB, the EC and FAR to find more information about the new international audit reform. In the development of the survey we used this information to build our questions, which is presented more in detail in part 3.2.2.2. When the survey was sent out we wrote, in the message area, the purpose with our study, so the respondents should have a clearer picture of what we wanted to research. To further strengthen the validity, we analysed comment letters from Swedish stakeholders that had been responding on FAR's Consultation Paper. This was mainly done in order to find opinions from other users of the audit report that we could not reach through a survey, such as the Swedish Tax Agency (Skatteverket) and the Companies Registration Office (Bolagsverket). Since FAR was not allowed to send us the comment letters, we had to search for them by ourselves. After having an email conversation with FAR, we were able to find out that they had received eighteen comment letters, through our investigation we were only able to find eight of them.

Generalisation is, just like reliability and validity, an element that makes the study's trustworthiness stronger. To generalise the result to other situations and groups is important, and also to develop a general picture around a group of individuals (Bryman & Bell, 2013). Due to the fact that the researcher is unable to cover the whole population, a selection must be done. This selection should aim to be as representative of the population as possible, in order to draw a general conclusion. To be able to have generalisation one must consider the population sample, which percentage loss you have had in the population sample and which segments of the population sample that have been dropped (Bryman & Bell, 2013). The aim of this study is to find a general picture regarding how auditors and stakeholders of the audit report look at the current, and the revised audit report. To accomplish this we have used a quantitative method in form of a survey and then complemented the answers from the survey with comment letters. When sending out the survey we did not limit the mailing to parts of Sweden, and regarding the auditors we did not choose particular audit firms. This was done to keep the study as general as possible. However, we needed to choose the stakeholders that seemed to be of most relevance, such as institutional investors and financial analysts. This could affect the generalisation and the reliability due to the fact that we did not look at all the possible stakeholders of the audit report, and these could have other opinions than our sample group.

### 3.6 Ethical considerations

During the research process, ethical considerations have been taken into account in order to conduct and present the study in an ethical manner. According to Denscombe (2009), researchers must act ethically in the implementation of their research. In order to act ethically, the researcher must respect the participant's rights and ensure that the participant do not suffer any harm from

participating in the research, and beyond this, the work should be reflected honestly and respect the integrity of the participant throughout the research process (Denscombe, 2009). Since the foundation of the study are based on respondents' participation, it has been important to act ethically toward the respondents and the fact that they do not feel forced to participate. In order to respect their rights, the respondents were informed about the purpose with the research and that the empirical data would be handled confidentially, which was done before they answered the survey. The language throughout the survey was neutral and all of the questions were optional to answer. The base when building the survey was mainly from the information in the current audit report, and the information that IAASB, EU and FAR have presented regarding the revised report. To use this information, the survey was built to not be biased towards different points of views. Further, the respondents of the survey only needed to state which industry they worked within, and they did not have to address neither their name nor the company they worked for. The ability to cancel the survey at any time was made in respect to the respondent's willingness and rights. It is hard, in advance, to anticipate reactions to all of the questions and therefore one need to have in mind that some of the questions can upset a few respondents. This we cannot control, but the survey is built both to avoid and accommodate these kind of reactions.

The issues mentioned above (regarding data confidentiality and anonymity) are not concerned when presenting the comment letters. According to Bryman and Bell (2013) this issue raises particular difficulties for many forms of qualitative studies. All of the respondents were aware that when sending comment letters their opinions would be heard and become public and could further be used for research purposes. When collecting data, objectivity and quality were two important ethical principles which were considered (Bryman & Bell, 2013). Objectivity is important in regards to not misrepresent data, therefore we read through the entire comment letter, and not just parts of it.

### 3.7 Evaluation of sources

The first step of our data collecting process included a document study. We focused on the most relevant documents concerning the revised audit report. In order to find the most relevant documents, we did a pre-study of several sources. First of all we explored websites by international authorities that are involved in the audit reform, by the Swedish Government and by FAR. This was done in order to find the most relevant studies and documents for our study, and to find the reasons why these authorities believe a change is needed. At the same time we looked at several academic researches to get an academic view on the audit report and the audit reform. We also studied documents by other audit organizations, such as PWC, because their expert opinion within the field of auditing contribute to our study. After we had read through these studies we looked at exposure drafts from IAASB regarding the revised ISAs and the proposals by the EC for new regulation on audit ("EC Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities", and "EC Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts"). Thereafter we focused on our case country Sweden and looked at the Government proposition 2015/16:162 regarding the new audit reform. After this analysis we concluded that documents

which were of most relevance to our study were the IAASB Consultation Paper, the EC Green Paper, and FAR's Consultation Paper.

### 3.8 Limitations and shortfall analysis

Some limitations have appeared during our research. As for the comment letters, we were limited to the comment letters found on the internet, due to the fact that FAR was not able to disclose the list of responses. In total they received 18 comment letters, and we were able to get access to 8 of them. As for the survey, the limitations have been the lack of participants (mainly from the auditors). More answers may have been relevant if the survey was sent out during autumn, when the auditors have more time to answer such surveys. Moreover, when using a survey to collect answers we limit ourselves to concrete answers and cannot ask follow-up questions in the same manner as with interviews.

According to Pallant (2013), it is very rare that all the identified respondents complete the entire survey. Before analysing the empirical data, which we received through our survey, we studied the material in order to find shortfalls. There are two different types of shortfall, external shortfall which occur when the people surveyed choose to not participate in the survey at all, and internal shortfall which refers to people whom only answer some of the questions (Denscombe, 2009). In order to avoid internal shortfall, we only created a limited number of well-formulated questions. According to SCB (1997) it is not possible to identify an acceptable shortfall rate, but it is important that the researcher have a plan of how to handle them, if they do occur.

	Intended respondents	Actual respondents	Respondents in %
<b>Stakeholders</b>	218	47	21,6
<b>Auditors</b>	252	28	11,1
<b>Total</b>	471	75	15,9

*Table 1: Respondent shortfall from the survey*

Our shortfall rate, for the auditor survey, was 88,9 %. Due to the fact that this period is very intense for the auditors, we were satisfied with the fact that 11,1 % responded. As for the shortfall regarding the stakeholders, 78,4 % chose to not answer our survey. The numbers within the column for "actual respondents" in table 1 only includes those who responded to all of the questions in the survey. This means that we had a total of 15,9 % who participated in our survey, as seen in the table above. When looking at the total population of certified accountants in Sweden today, there are about 6 400 (Revisorsnämnden, 2016). It is not possible to measure the number of Swedish stakeholders which uses the audit report, but we know that there are about 1 100 000 legal entities in Sweden today (SCB, 2015) and several others that are involved and interested in the information covered in the audit report. On this basis, we are well aware of that 75 respondents are a small amount, and may therefore be hard to generalize.

The internal shortfall, which are those who did not complete the entire survey, was 13 % (7/54) regarding the stakeholders. As for the survey for the auditors, the internal shortfall was 30 %

(12/40). We chose to not include the internal shortfall in our analysis since these respondents contacted us and told us that they were not able to complete the entire survey. The reason for this was that they did not work with the audit report, and therefore we believed that their answers were not relevant for our research.

Regarding the stakeholder respondents, we can conclude that 65,2 % had 11-16 (or more) years of experience within their field and that 61,7 % worked with investments. This means that most of the persons who answered our survey had long experience, which makes our research more reliable. As for the working field, most of the respondents worked with investments and this makes the research more focused on their answers than for the other groups that also answered our survey (such as banks and insurance companies). When it comes to the auditor respondents, we saw that 89,3 % worked for small- or medium sized companies. 28,6 % of the respondents had 0-2 years of experience and 25 % had 16 (or more) years of experience within the field. Something to keep in mind is that the result can be distorted due to the fact that the focus group in this survey becomes persons who have worked for 0-2 years, or 16 or (more years), with small- or medium sized companies.

In the second part of our empirical chapter comment letters are presented, which were responses to FAR's Consultation Paper. We read and analysed 8 out of 18 comment letters (see table 2), which means a shortfall of 55,6 %. From the eight comment letter that we analysed we could see that six of them were Swedish Government bodies. Due to the fact that FAR could not give as a list of all the comment letters, we could only find the ones that were available online. If we found more comment letters to analyse the result would probably have been better.

	<b>Total comment letters</b>	<b>Comment letters available</b>	<b>Comment letters in %</b>
<b>Comment letters</b>	<b>18</b>	<b>8</b>	<b>44,4</b>

*Table 2: Comment letters available for the research.*

### 3.9 Chapter summary

This chapter explained the quantitative- and qualitative research approaches and the strategy of the thesis. The methods regarding data collection were presented, and how the survey and the document study should work to analyse the research questions in further chapters. This chapter also looked at selection of respondents and how the survey was designed. Moreover, the analysing process of the research was clarified. In addition, reliability, validity and generalisation were presented and were followed by ethical considerations. Finally, the chapter looked at limitations with the chosen methods, an evaluation of the sources and a shortfall analysis.

## 4. The value of the audit

*The following section will discuss audit theories and literature on the information- and expectation gap. Thereafter, a short introduction of the audit process will be made, including the format of the audit report, then the institutional context is presented. At last, our analytical model is conferred.*

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In order to create an understanding for the research, auditing theories and literature on the audit information- and expectation gap have been studied. These are going to create an understanding of the empirical analysis by describing different events and behaviours, and will help us answering our research questions. Literature on the information gap were used when evaluating the international mindsets and reasons underlying revision in audit requirements. This literature was used since, as mentioned in the problematization, the information gap is a problem which has been present as long as the audit report has been a part of the audit work. Therefore, we argue that it is vital to know the rationale behind the problem of communicating audit work. The international standard setters, such as IAASB and EC, are today focusing on changes regarding the audit report in order to reduce the information gap, and in some extent reduce the expectation gap. Hence, we will present literature on the expectation gap in connection to the information gap. We decided to include the theory of decision usefulness since it goes hand in hand with the information gap, due to the fact that the theory evaluates the way businesses make decisions based on information available and how they then make decisions might be a big part of why the audit information gap exists. Therefore, the combination of the auditing theories and literature on the information gap will create a foundation for understanding of the purpose with this paper.

### 4.1 Auditing theories

There is no common answer to what the purpose is of an audit or why the procedures and practices, which are adopted, are seen to be acceptable and appropriate in relation to the recognized objective (Flint, 1988). Mautzt and Sharaf (1961 cited in Flint, 1988) mean that auditing has come to a state of maturity, and that it will be good to pause and analyse over the aims and methods used. The purpose of auditing theory is to provide an understandable set of suggestions regarding the activity, which explains its social value and objective. These suggestions will give a foundation and justification for the audit procedures and practices (Flint, 1988). Additionally, Flint (1988) states that accountability is important, and the audit purpose and function may be explained by the fact that an audit is required where there is a commitment of accountability between two parties. The audit is therefore an instrument by which accountability is guaranteed (Flint, 1988). Accordingly, an audit has no value except its practical usefulness and can therefore be seen as social phenomena. While the principles of audit may be globally applicable, the specific functions, standards, and practises are unlikely to show the same uniformity, although they should be consistent with the culture of the specific society (Flint, 1988). According to Kiss et al. (2015), an audit could be defined as “an independent examination of the financial statements and relevant financial information of an entity, be it profit oriented or



not and regardless of its size or legal form of organization, when the examination is the objective to express an opinion regarding this information” (Kiss et al. 2015, p.65).

#### 4.1.1 Audit information- and expectation gap

Both researchers and different standard setters, like IAASB and EC, have at several occasions mentioned the expectation gap and the information gap as a way of explaining why new changes have been made in the audit report. The quality of communication between auditor and users of the report is defined by the information gap, due to the fact that information in the audit report is a way for auditors to disclose their findings. Our research focuses on the communication between the auditors and the users, through the audit report, which makes the information gap applicable.

There is not a considerable amount of research regarding the audit information gap and therefore there is a lack of definitions regarding this concept. However, the most relevant definition is created by the international standard setter IAASB. IAASB (2011) defines the information gap as “a gap between the information they [users] believe is needed to make informed investments and fiduciary decisions, and what is available to them through the entity’s audited financial statements or other publicly available information.” (IAASB, 2011, p.8). Some believe that the information gap is mainly connected to weaknesses in financial reporting frameworks and their applications, but many accept the inherent complexity in the business environment. This means that the audited statements are not likely to provide users with the information needed for financial analysis and decision making (IAASB, 2011). The IAASB also presents an illustration of the “information gap”, as seen in figure 3.

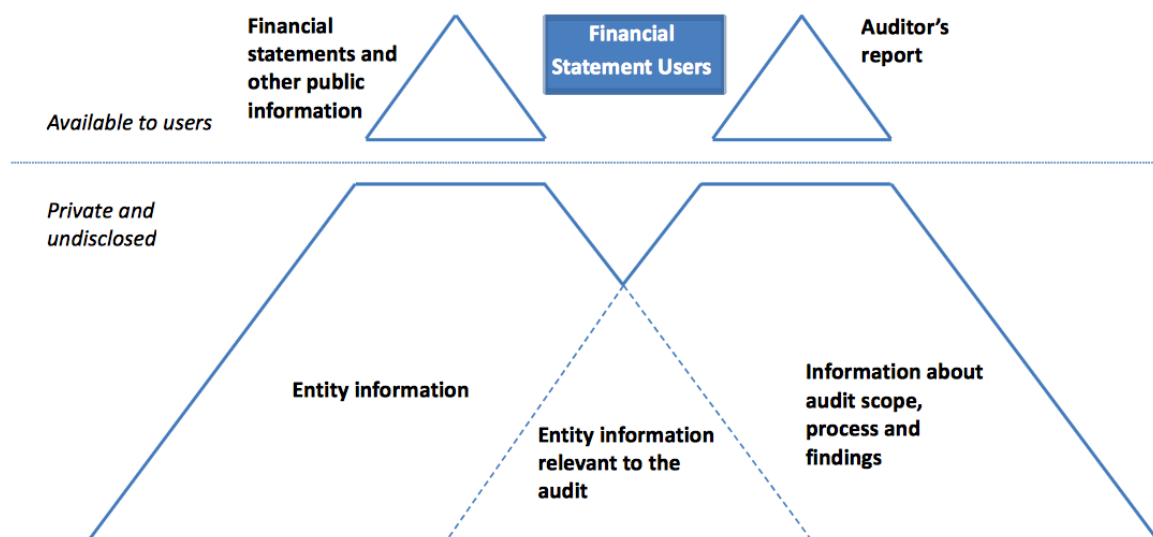


Figure 3: Illustration of the Information gap (IAASB, 2011).

Regarding the expectation gap, Liggio (1974) was the first person to use the phrase “expectation gap” in an auditing context. He defined the expectation gap as “the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements”. This strict definition has been extended over time and Porter (1993) defines the expectation gap as “the gap between society’s expectations of auditors and auditors’

performance, as perceived by society”. Porter (1993) also presents a model of the expectation-performance gap, which is the most used model today, this is illustrated in figure 4. Today, IAASB (2011) defines the expectation gap as “the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is.” (IAASB, 2011, p. 7). Ruhnke and Schmidt (2014) in turn, defines the expectation gap as “when auditors’ performance fails to meet the public’s expectations, an expectation gap occurs.”. We will use the definitions by IAASB (2011) and Porter (1993).

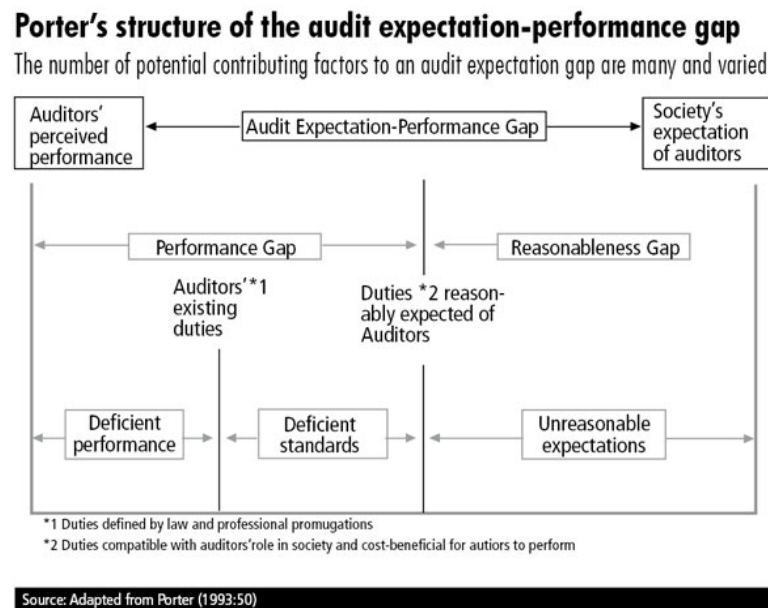


Figure 4: Porter’s structure of the audit expectation-performance gap (Porter, 1993).

#### 4.1.2 Decision usefulness

Companies must make significant business decisions every day. The users of financial information demand trustworthy information when making important business decisions (Williams et al., 2002). According to Williams et al. (2002), the main purposes of financial accounting are to measure business activities of a company and to communicate those measurements to external parties for decision-making purposes. Auditors play a significant role in companies’ decision-making processes, since they ensure the accuracy of financial information when giving their professional opinion in the audit report (Mock et al., 2011). Auditors play a major role in decisions made by investors’ and creditors’ through adding credibility to a company’s financial statements, which is illustrated in figure 5, (Williams et al., 2002).



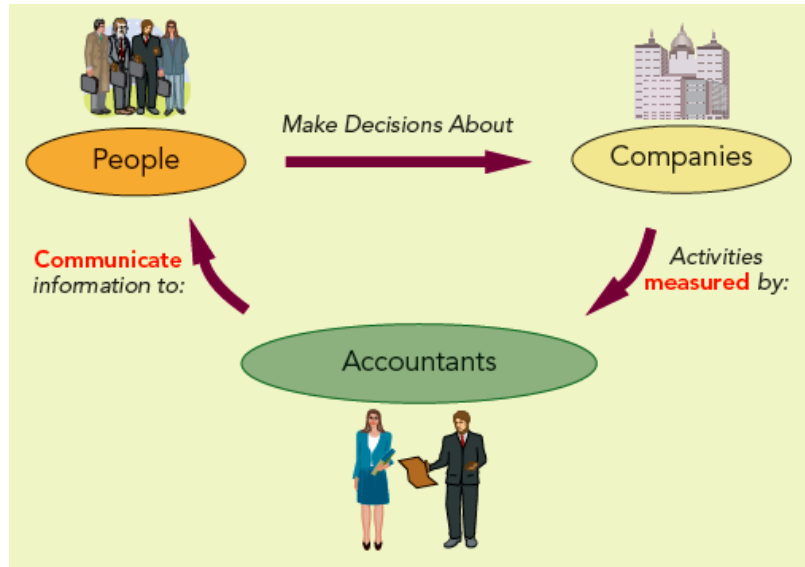


Figure 5: Decision-making model (Williams et al., 2002).

## 4.2 The audit process

Auditing is seen as one of the key contributors to financial stability since it gives assurance on accuracy of the financial statements provided by companies. By giving assurance, the auditor reduces the risks of misstatement occurring within the company’s financial statements, and therefore also reduces any harm to the company’s stakeholders. Auditors have an important role within the society, when offering an opinion on the truth and fairness of the financial statements of audited entities (EC, 2010). IAASB has pointed out the important role of the audit when advocating the quality of financial reporting globally, and at the same time brings up factors that influence the expectation of the audit. Moreover, IAASB states that audit reporting is a part of a broader reporting process, but plays an important role when communicating to the users of the report, and “the value and relevance of the audit report needs to be monitored and maintained and, as appropriate, enhanced” (IAASB, 2011, p.6).

Today, an auditor can audit several different fields, not just the field of financial statements. Regardless of what subject matter that is supposed to be audited, the audit process is constructed the same way, and is designed in order to help auditors collect adequate evidence. As figure 6 shows, the audit process consists of four phases; 1. client acceptance, 2. planning, 3. testing and gather evidence, and 4. evaluation and reporting (Hayes et al, 2014).

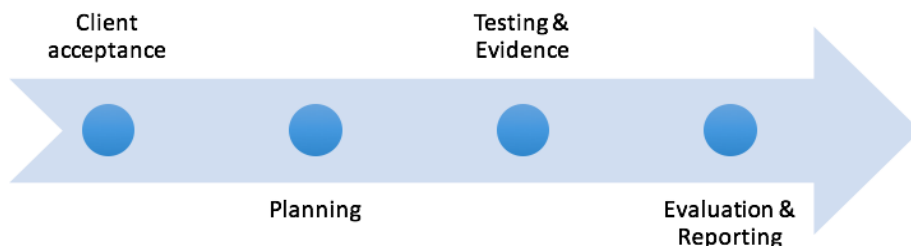


Figure 6: The audit process (Hayes et al, 2014)

The objective of the first phase, the client acceptance, is for the auditor to decide to accept the client or not, based on investigations of, for example, the potential background of the client. As for the second phase, planning, the auditor should decide the amount and the type of evidence needed in order to perform the audit procedure. The third phase, testing and evidence, involves testing for evidence supporting internal controls and legitimacy of the financial statements. The fourth phase, evaluation and reporting, is the final stage of the audit process where the auditor issues his/her opinions, which eventually ends up in the audit report. Although this is the last stage of the audit, it includes several procedures in order to complete the audit. The objectives of all of these procedures are to review audit work, get certain assurance from the client, uncover any potential problems, check compliance with regulations, and check the consistency of the material that is to be presented to the users of financial statements. The audit is not considered to be done until the audit report is signed (Hayes et al., 2014), which shows the importance of the audit report. Since our paper is focusing on the importance of the audit report, our main interest lays within the fourth phase.

#### 4.2.1 The format of the audit report

In the early 1990s, the audit report was unstandardized and constructed as a certificate whereas the auditor only confirmed that the financial statements were correct (Kiss et al. 2015), which was a reflection of the early British influence (Church et al., 2008). In a study, Carmichael (1982) presented a sample report that was issued by PWC:

*'We have examined the above accounts with the books and vouchers of the company, and find the same to be correct. We approve and certify that the above balance sheet correctly sets forth the position of the company.'*

Research regarding the language in the audit report has been developed over the last 20 years, which have been filled with discussions and debates between practitioners, regulators, and the accounting profession (Church et al., 2008). The traditional style of the audit report, either “pass/fail” opinion, is no longer considered to be enough (PWC, 2013). The audit report has changed from a long report to a short report, and vice versa over the years. Despite several changes, it is argued that the changes have not met the needs of the users of the financial statement. Further, the changes have not been adjusted to the rapid and complex developments that is happening in the business world today (IOSCO, 2009), in appendix 5 you can see an illustration of the current report.

### 4.3 Institutional context

#### 4.3.1 The international level

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that provides the interest of the public by setting high-quality international standards for assurance, auditing and other areas, and by assisting their implementation and adoption (IFAC, 2016a). The structure of the processes within the IAASB are facilitated by the

International Federation of Accountants (IFAC) (IAASB, 2015). IFAC is a global organization for the accountancy profession that works to serve the public interest by contributing in developing of a strong international economy and strengthening the audit profession (IAASB, 2015).

International Standards on Auditing (ISAs) are standards for financial audit of financial information, and these standards are issued by IFAC through IAASB. The structure of ISAs is as follows: the first section is an introduction that includes information regarding the purpose, scope and subject matter of the ISA together with the responsibilities of the auditor; next section is the objective of the audit (which are addressed by that ISA); the third section defines applicable terms; then the requirements are presented; and lastly the application and other explanatory material are brought up to explain more precisely what one requirement means (IFAC, 2012b).

#### 4.3.2 The EU-level

The European Commission (EC) is the EU's executive body which represents the interests of the EU as a whole. Its main role is to propose legislation that is adopted by the European Parliament and the Council of Ministers, to enforce European law, set objectives and priorities for action, manage and implement EU policies and the EU budget, and to represent the Union outside Europe. The EC has its headquarters in Brussels, Belgium and the Commission has representations in all EU member states and delegations across the globe (EC, 2016).

EU Directives are legislative acts that set out goals which all EU countries must achieve. It is up to the individual country to arrange their own laws on how to reach these goals (EU, 2016). The main directive governing audit in the EU is today Directive 2014/56/EU on statutory audits of annual accounts and consolidated accounts (EC, 2015).

EU Regulations are binding legislative acts that must be applied in its entirety across the EU countries (EU, 2016). They are legal acts that are binding upon EU institutions, EU countries and the individuals to whom it is addressed. The statement "directly applicable in all EU countries" means that it applies immediately as the norm in all EU member states without being transposed into national law, it creates rights and obligations for individuals, and it can be used as a reference by individuals in their relationship with other individuals, EU member states and EU authorities (EU, 2015).

The Company Law Directive on audit allows the EC to adopt ISAs for the application in EU. Audits of annual accounts or consolidated accounts required under Community law shall be carried out in accordance with these standards adopted by the Commission (EC, 2015).

### 4.3.3 The Swedish level

The audit report is based on Swedish law and generally accepted auditing standards. In Sweden, it is the Government that makes propositions regarding new laws and then the Parliament enforces them. In “Regeringsformen”, which is one of the fundamental laws in Sweden, it is explained what must be determined by a law and what can be determined by a regulation. All laws and regulations are published in the Swedish law, SFS (Riksdagen, n.d.).

Since Sweden is a member of the EU, they must follow the directives and regulations implemented by the EU institutions. If Sweden does not follow the rules, the country can be brought up to the European Court of Justice. If a Swedish law is in conflict with EU law, the EU law applies (EU-upplysningen, 2016).

The main laws governing audit in Sweden are Revisionslag (1999:1079) and Revisorslag (2001:883). The proposals regarding the new audit report are based on an EU directive and an EU regulation, the so-called audit package (Lennartsson, 2015).

FAR, which is the Swedish institute for auditors and accountants, works with the development of the new audit report in Sweden, and provides recommendations for the creation of audit reports (Lennartsson, 2015). FAR has developed recommendations of how the audit report should be designed in Sweden. These recommendations ought to be seen as a complement to the EU audit reform, as well as to the ISAs, concerning the audit report (FAR, 2010).

## 4.4 Our analytical model

In this section, an analytical model is created for the empirical data, which will be presented in chapter 5. Our analytical model is based on the information collected through our document study, that concerns the revised audit report on three different levels (international, EU and Sweden). Our analytical model is based on a model made by IAASB regarding the information gap (see figure 3), since our research shows that the main objective of the current reform is to improve audit quality by reducing the information gap. As a complement to the original model by IAASB, factors that influence the Swedish information gap and therefore affect the quality of communication between Swedish auditors and the users of the report, will be included in our analytical model, as presented in figure 7. The four factors are; national requirements, FAR’s recommendations, EU directives and regulations, and ISAs.

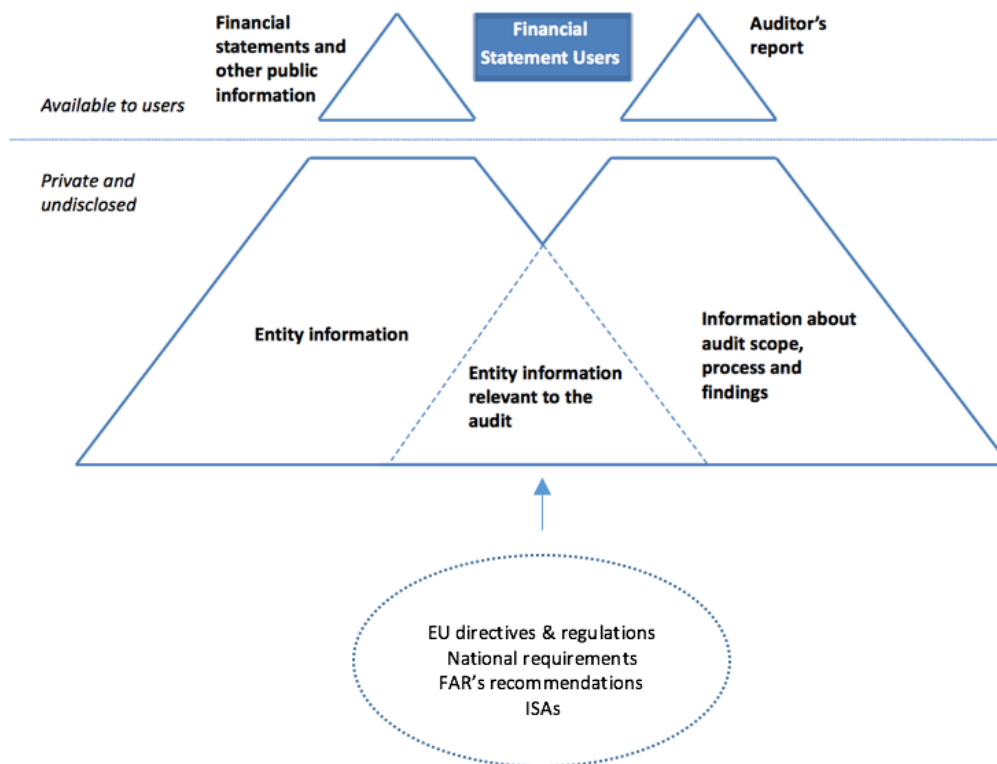


Figure 7: The analytical model used in the thesis

The four factors presented in figure 7, will affect the information communicated through the Swedish audit report, and therefore the information available to the users. With this analytical model as a base, we will analyse the data collected, in order to see how revision will, on an international level, affect the quality of communication between Swedish auditors and the users of the report. In addition to figure 7, we will include the decision making theory when analysing our empirical data, since the audit report is constructed for stakeholders to be able to make both internal and external financial decisions based on the information presented in the audit report.

## 4.5 Chapter summary

In this chapter the focus has been on the audit report. First, audit theories have been presented and literature regarding the information and expectation gap, which are relevant to our study. A short introduction has been made regarding audit process and the history behind the audit report. Then the institutional context has been presented. This has been done on three different levels; international, EU and Sweden. Further, an analytical model has been developed, which includes aspects from both audit theories and important factors regarding the new reform. This analytical model will be the base when analysing our empirical work in later chapters.

## 5. Empirical chapter

*In this chapter the results of the chosen methods, including a survey and a document study, will be presented. Initially, the results from the document study will be presented. Second, responses from our survey will be addressed and thereafter a presentation of the material regarding our document study of the comment letters will be presented. Interpretation of the answers that emerged from these studies will be presented in subsequent chapters.*

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### 5.1 Document study

In this section, we will present the data collected through our document study. This data will help us when analysing the reforms on the audit report, which are set in motion on the international level and the EU level, and how these are interrelated with each other, and with the Swedish audit report.

#### 5.1.1 Background for the new audit report

In the EC's Green Paper "Audit Policy: Lessons from the Crisis" from 2010 there is a clear fact that the revealing of big bank losses in 2007-2009 has created many questions of how auditors could give a qualified audit report on their clients, and also the appropriateness and ability of the current legislative framework. In addition, the change of the audit report has been in a light of interest since the financial crisis in an article by PWC (2013). According to the article, the investors value auditors' judgements on the financial statements and they don't want to lose this value. But with the financial crisis came the need for a more informative audit report, since the investors and other stakeholders called for it. PWC (2013) means that auditors have a good insight based on their audits and the stakeholders are now asking for auditors to share a part of that insight. IFAC (2012) has also brought up the subject and published an ITC-paper (Invitation to Comment) that focuses on the need for more relevant information for the users of audited financial statements when making decisions in today's complex global business environment. The paper points out that it is particularly institutional investors and financial analysts that want to have a more informative audit report. The research project by Vanstraelen et al. (2011) at MARC has also stressed the financial crises as a trigger for the standard setters and regulators to revisit the audit report.

According to the EC Green Paper (2010), specific stakeholders have articulated concerns regarding the purpose of auditors in today's business environment. Stakeholders may have a hard time grasping that a business's financial statements suggest "reasonableness" and "correctness" also when the business is affected financially. This makes it clear that the stakeholders are not fully aware of the limitations of an audit, which generate an expectation gap. IOSCO (2009) has summarized the criticism on the standard report into three categories: "(1) expressing an opinion that is binary in nature may not be optimal for today's complex business environment; (2) the standard audit report contains boilerplate and technical language; and (3) the standard audit report does not reflect the level of effort and judgment inherent in an audit".

A huge issue in the audit environment today is the negative attention connected to a qualified audit report. This perception has kept going where “qualification in an audit report” have become hated from both auditors and clients. Today there is no categorisation by auditors of their clients, and this comes from the fact that the auditor only expresses a fair view on the financial statements and not on the relative performance (EC, 2010). In 2006 the IAASB commissioned an international academic research on stakeholder thoughts regarding the standard audit report and the finding from this research was that status quo is not an option. It showed a huge demand for auditors to provide increased transparency about significant matters and to administer an individual audit. Both PCAOB and the EC demonstrate that the audit report needs to be improved, which have reflected in the need for improvements in corporate reporting. It is notable that call for change initially came from institutional investors and financial analysts. They were looking to auditors for assistance in handling increasingly complex financial statements and point out the areas in which the auditor’s work effort is focused, mainly on the most subjective matters within the financial statements. However, there are other users of the audit report (like securities regulators, lenders and other creditors, and public sector authorities) whom will have an interest on the progress in this area, and so will other stakeholders (including preparers, those charged with governance of an entity, and audit regulators) (IFAC, 2012a). To improve the overall communication process, the auditor’s responsibilities to communicate may be revisited, which might increase the understanding of audit value (EC, 2010).

### 5.1.2 International revised audit reporting standards

In May 2011, the IAASB presented a consultation paper where stakeholders of the audit report were able to send in comments on the paper. The purpose of the international consultation was to decide if there are any common views between key users of audited financial statements and other parties of the auditor process regarding the usefulness of audit reporting. The IAASB states also that the purpose was to explore likely options for improvement of the quality, relevance and value of auditor reporting. They encouraged all stakeholders, including users of financial statements, preparers, auditors and regulators, to respond to their paper. This could help the IAASB to get a better understanding of the relevant issues and how to best address these issues (IFAC, 2011).

In the consultation paper, the IAASB first explains the background for the need of change: today’s global and complex business environment and the financial crisis. Then they present the issues identified: narrative disclosures, the report is not as useful or informative as it could be, the communicative value could be better and the issue of the expectation- and information gap. Thereafter they present the perspectives on the issues: the paper does not address experiences and views from all types of users of auditor reporting, some users have been imminent in their views, such as large investors and financial analysts, and other users can have other concerns that have not been identified. IAASB explores options for change regarding the format and structure of the audit report, other information in documents, auditor commentary on matters of significance, an improving corporate governance reporting model, and other assurance or related services on information not within the current scope of the financial statement audit. Lastly, in the

consultation paper is a section concerning the implications of change and potential implementation challenges, such as boundaries between the respective roles and the improvement of the quality of financial information. Throughout the paper, in the different sections, there are questions for stakeholders to answer (IFAC, 2011).

The IAASB agrees that improved audit reporting is necessary to influence the value of the financial statement audit and the relevance of the audit profession. Knowledgeable by stakeholders, academic research and public consultations, the IAASB has developed new and revised audit reporting standards that represents the change in practice (IAASB, 2015). A number of ISAs handle the auditor communication and one of the central priorities since 2011 have been for the IAASB to determine whether and how the ISAs should be improved to better suit stakeholders' needs and to build up the communicative relevance and value of the audit report (FEE, 2015a). Table 3 shows a list of ISAs that have been revised.

ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
ISA 701 (New), Communicating Key Audit Matters in the Independent Auditor's Report
ISA 260 (Revised), Communication with Those Charged with Governance
ISA 570 (Revised), Going Concern
ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report
ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information <sup>10</sup>
Conforming Amendments to Other ISAs

Table 3: International Standards (ISAs) that recently have been amended or developed (FEE, 2015a).

There are a few major changes in the IAASB's audit report, and some of them are only mandatory for audits of financial statements on listed entities. These changes include a new section to communicate key audit matters (KAM), which are those matters that were the most significant in the audit in the period of current financial statements, and disclosure of the name of the engagement partner. The changes that are mandatory for all audits are; an opinion section is required to be presented first and then a "Basis for Opinion" section, improved auditor reporting on going concern (like a description of responsibilities by auditors and management for going concern), a separate section when a material uncertainty exists and is adequately disclosed, an approving statement about the auditor's independence and fulfilment of relevant ethical responsibilities with reference to the 'Code of Ethics for Professional Accountants', and enhanced description of the auditor's responsibilities and key features of an audit (IAASB, 2015). Figure 8 shows which standards that will be affected by this change.



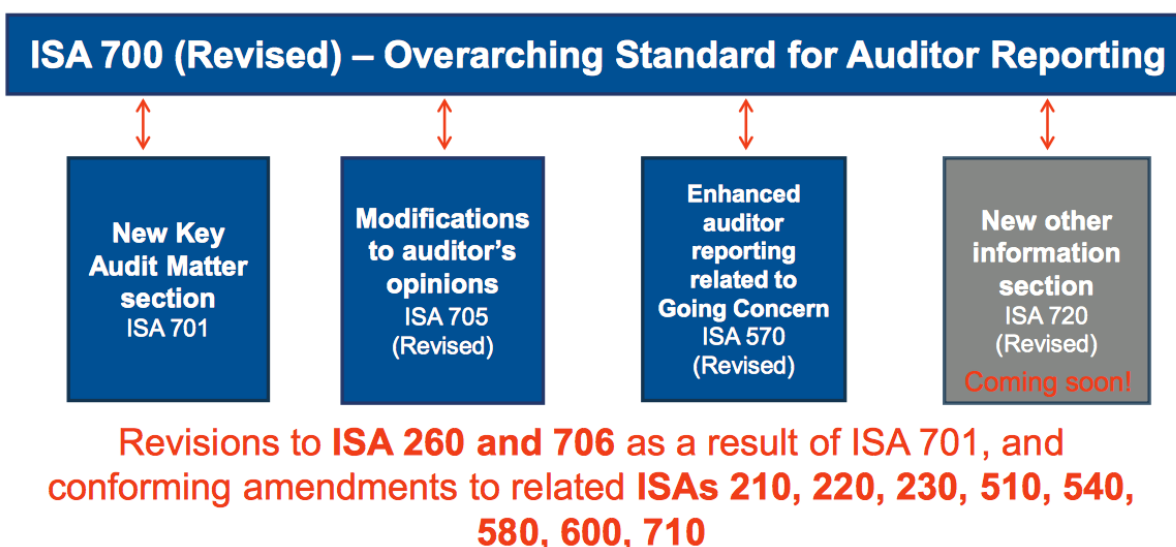


Figure 8: The revised auditor reporting standards (IAASB, 2015).

The IAASB states that the intended benefits with the new audit report are that it will increase user confidence in audit reports and financial statements, improve communication between auditors and investors, and also those in charge with corporate governance. Further, it will increase transparency, audit quality and improve information value and financial reporting in the public interest. The benefits will also be revived auditor focus on matters to be reported, which could result in an increase in professional scepticism. Also, more focus by management and financial statement preparers to disclosures referencing to the audit report (IFAC, 2016 b). In appendix 6 there is an example of what the revised audit report may look like.

### 5.1.3 Revised EU Directive & New EU Regulation

After the financial crisis, in October 2010, the EC presented a Green Paper on audit policy. Background for the paper lays in the value of audit work, because of its contribution to financial stability as it provides assurance on financial health of all companies. This assurance should reduce risks of misstatement, reduce the costs of failure, and robust audit is key to building trust and market confidence. The EC stresses the importance of auditors and that they are entrusted by law to administer audit. Further, the paper shed light on the fact that certain stakeholders have expressed concerns regarding the relevance of audits in today's business environment. Accordingly, the EC wanted to open a debate regarding audit work and therefore launched the Green Paper as a part of a holistic approach that includes other initiatives within the financial stability. The EC wanted to seek comments from stakeholders such as investors, management, lenders, employees, government authorities, auditors, tax authorities, regulators, etc (EC, 2010).

The major issue today is the negative perception of a qualified audit report regarding the “all or nothing” paradigm. There is no categorisation by auditors of audited clients because of the fact that the auditor is expressing a fairness view in the financial statements and not on the relative performance. The EC means that one has to consider if informative matters, such as potential risks and exchange rate risks, provided together or as a part of the audit report may provide more value to stakeholders. As in the IAASB Consultation Paper, the Green Paper present questions in the different sections for the stakeholders to answer (EC, 2010).

In 2011 the EC presented a proposal for a regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities, due to the comments on the Green Paper. The responses shown both positive and negative opinions regarding change of the audit. Stakeholders, that were well established, were mainly opposed to change. Small and medium sized practitioners, as well as investors, settled that recent financial crises highlighted serious weak points. The EC identified the various problem areas which required regulatory actions, and they were; the expectation gap between stakeholders and auditors, the independence is not assured or demonstrable, and the market is concentrated to the big audit firms which leads to lack of choice (EC, 2011).

The next step following the Green Paper and the proposal paper was the establishment of a new EU regulatory framework in April 2014 when the new directive and regulation were presented. The new directive, Directive 2014/56/EU, replaced the earlier Directive 2006/43/EC which covered “statutory audits of annual accounts and consolidated accounts”. The new Regulation 537/2014 is on “specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC”. The new requirements will apply to the first financial year starting after the date of application of the new framework. For each audited company the auditor will produce one audit report which will have to meet the requirements set out in the directive, and in case of a PIE, also requirements set out in the regulation. The directive contains a set of requirements regarding all audits, whereas the regulation provides certain specific auditor reporting requirements for PIEs. Neither the directive nor the regulation impose any standardised language for the audit report, it is up to the member states to define the way in which the contents of the audit report are to be presented (EC, 2014).

The main differences between the EU and the IAASB provisions regards the effective date and the scope of some of the proposals that are related to PIEs (EU) as compared to listed entities (IAASB) (FEE, 2015a), this differences are presented in figure 9.

For the EU	For the ISAs	Comparison
The revised EU legislation applies from 17 June 2016. In practical terms, the first audit reports following these new requirements are likely to relate to financial years ending on 30 June 2017 and beyond.	The new and revised auditor reporting standards will be applicable for accounting periods ending on or after 15 December 2016. In practical terms, the first audit reports following these new requirements are likely to relate to the financial years ending on 31 December 2016 and beyond.	Early application is possible under ISAs.  The practical impact of this difference is that, for those countries that have adopted ISAs, a number of the EU requirements that are comparable with the new ISA requirements will be adopted early.

Figure 9: Main differences between the EU and IAASB (FEE, 2015a).

The ISAs will be adopted at EU level via delegated acts and the adoption for the audit of PIEs is also considered in the Regulation as a safeguard to ensure legal correctness and to avoid inconsistencies (EC, 2014).

#### 5.1.4 The revised audit report in Sweden

In 2014, the Swedish government decided on a council of legislation that contained proposals regarding new rules for the Swedish audit process and the auditors. The proposals within the council of legislation adapted the Swedish legislation to the new EU-rules that were exposed in their EU audit reform. The government proposed for the new rules to become applicable on the 17<sup>th</sup> of June 2016 (Regeringen, 2015). In March 2016, the Swedish government decided to approve the proposal and therefore adapt the Swedish legislation to the new EU rules. The new rules would, for example, lead to that the audit report is going to contain more information for the benefit of corporate stakeholders (Regeringskansliet, 2016). The changes of the Swedish audit report are due to changes within two regulatory systems, mainly because of the EU's audit reform, and also because of changes in the ISAs concerning the audit reform (FAR, 2015a). The new audit report is thus a Swedish product, but is based on new rules issued by the EU and IAASB (Lennartsson, 2015). The revised ISAs should be applied from the financial year ending December 15 2016 or later (FAR, 2015). The Swedish Government has published a proposal for new rules concerning auditors and audit work. The proposals adapt Swedish legislation to the new EU rules, the so-called audit package, see appendix 7 for an illustration of the new audit report. The Swedish Government proposes that the legislation should be introduced on the 17th of June 2016. The legislative proposals imply that the audit report should contain more information for the benefit of those interested in the company's finances (Regeringskansliet, 2016). Some changes will only apply to audit reports of public-interest entities (i.e companies listed on regulated markets and some financial companies), while others will apply to audit reports for all categories of businesses (FAR, 2015a).

In 2015, FAR published a consultation paper regarding the design of the new audit report (see appendix 7). The consultation paper is based on the directive for auditors, audit regulation and ISAs (namely these ISAs: 570, 700, 701, 705, 706 & 720). The first part of the consultation paper includes a general explanation of the reasons behind the change of the Swedish audit report. In the end of the first part, FAR places the following questions; "Does the proposal for the new audit report take the changes of the ISAs and the EU audit reform into account?" and "Will implementation of the new audit report cause any problems for the users of financial statements and audit reports, the preparers of financial statements, or the auditors? If yes, describe". The paper includes three appendices, whereas the first appendix includes information about changes of the new audit report. The second and third appendix include suggestions for the design of the new audit report (FAR, 2015).

After the reform, there will be several changes from the original report. This section will demonstrate the most significant changes in the design of the report. As for the structure, the new report will begin with the actual opinion from the auditor. In addition, the new audit report will include several new sections. One section will be entitled "Basis of statement", which should be placed next to the section of the final statement. This section has previously only been associated with modification of the statements. Another section will be entitled "Substantial uncertainty due to the going-concern operation", but will only be included if there would appear such uncertainty. Similar information has previously been provided under the heading "Emphasis of matter".

Another section will be entitled “Key audit matters”, which is considered to be the main change of the new audit report. The information in this section is adapted to the circumstances of each company and is not standardized. One additional part will be entitled “Information other than the financial statements”, but only in situations when a company, in connection with its annual financial statements/consolidated financial statements, also publishes for instance a CEO statement or an annual report. The aim of this section is to inform various stakeholders of how the auditor has taken “other information”, in accordance with ISA 720 "The Auditor's Responsibilities Relating to Other Information", into account when performing the audit process (FAR, 2015)

FAR will introduce some new recommendations due to the changes described above. The current recommendations, RevR 709 and RevU 709, will be replaced by three new recommendations; RevR 700, RevR 705 and RevR 701. The RevR 700 concerns the design of the audit report and includes a basic guidance on this matter. The RevR 705 gives guidance how to include modified statements, disclosures and remarks within the audit report. The RevR 701 is a complementary recommendation to RevR 700 and RevR 705, concerning the design of the audit report and other reporting requirements (FAR, 2016).

In Sweden, the ISAs are adopted with some minor add-ons. The main differences between regulations regarding the Swedish audit report and the ISAs are that the auditor should make the following additional statement within the audit report; “A statement on whether the general meeting shall adopt the Board’s suggestion for appropriation of profits, a statement on whether the Board and managing Director shall be discharged from liability by the general meeting and remarks on any significant violations of the companies’ act, the annual accounts act, the by-laws and non-compliance with tax laws.” (FEE, 2015b, p.20). According to the basis of ISAs, the auditor should provide an opinion on whether the financial statements in all material aspects, gives a true and fair view in accordance with the applicable standards for accounting. The previous statement applies to the Swedish law as well, with some minor modifications. According to Swedish law, the auditor is also supposed to provide an opinion on whether the management report, “förvaltningsberättelsen”, is consistent with other parts of the annual report. Beyond this, the auditor should comment on whether the annual general meeting should settle the balance sheet and the income statement. Due to these expanded requirements for the Swedish market, the audit report and its related guidance will be more complex than described in the ISAs (FAR, 2010). As mentioned, the content of the new Swedish audit report is influenced by both IAASB and the EU. In table 4, these changes are outlined. As already mentioned, Sweden is a member of the EU, which means that they are obliged to follow the directives and the regulations enforced by the EU. Member states may also require statutory auditors and audit firms to carry out audits in accordance with international auditing standards adopted by the EC. The member states may also apply national auditing standards, procedures and requirements, if the commission has not adopted an international audit standard that covers the same area. Further, the application of the international standards may be applicable to the extent that they are relevant to statutory audit (Directive 2006/43/EG).

<b>Subject</b>	<b>Description</b>	<b>EU</b>	<b>IAASB</b>
Opinion	The auditor's opinion comes first		X
Risks	The auditor must state the "most important assessed risks of material misstatement" (EU) or "key audit matters" (IAASB)	X	X
Irregularities	Indication of the extent to which the audit is considered to be able to detect irregularities, including fraud	X	
Consistency	Confirmation that the audit report is consistent with the report to the Audit Committee	X	
Advisory services	Assurance of impartiality and independence, incl. assurance that no prohibited advisory services has been performed	X	
Consistency	An indication of whether the auditor believes that the revised "disclosures" are essentially consistent with the annual report and /or the auditor's knowledge of the company		X

Table 4: Sections of the new Swedish audit report and where they come from (Hjalmarsson, 2015)

Table 5 demonstrates a summary of the main findings, presented above. We are able to see that the requirements for the three levels are different, but the most essential objective for the new audit reform is the same for all of them, namely to reduce the information gap. The main reasons for a revised audit report are practically the same on an international level and on an EU-level. As for Sweden, the reason for the change is mainly due to the fact that EU requires Sweden, as a member state, to follow the new reform. The actors that will be affected by the reform are the same on all levels.

	<b>International</b>	<b>EU</b>	<b>Sweden</b>
Main actors	- IFAC - IAASB	- The EC	- The Swedish Government - FAR
Requirements	- ISAs	- Directives - Regulations	- National law - International standards - Recommendations by FAR
Main reasons for the revised audit report	Financial crisis → will not have a competing report with EU. Stakeholders demand more information.	Financial crisis → stakeholders demand more information	The new EU directive and regulation, which in some parts are built upon ISAs.
Main objective for the	Reduce the	Reduce the	Reduce the

new audit reform	information gap	information gap	information gap
Whom is affected by the reforms?	<ul style="list-style-type: none"> <li>- Listed- and non-listed entities (different conditions)</li> <li>- Auditors</li> <li>- Users of the report</li> <li>- Other stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>- Listed- and non-listed entities (different conditions)</li> <li>- Auditors</li> <li>- Users of the report</li> <li>- Other stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>- Listed- and non-listed entities (different conditions)</li> <li>- Auditors</li> <li>- Users of the report</li> <li>- Other stakeholders</li> </ul>

Table 5: Compilation of the findings in the document study.

## 5.2 Survey

The following section will describe the respondents' answers to our survey. As mentioned earlier, there were two versions of our survey. One version was sent to various stakeholders, more particularly 218 stakeholders, whereas 47 of them participated and completed the entire survey. The other version was sent to auditors, namely 252 auditors, whereas 28 of them participated and completed the entire survey.

### 5.2.1 Stakeholders

This section stresses the responses we received through the survey, which was sent to the stakeholders. The **first question** in the survey, a background question, was “*Within which occupational field do you operate?*”. The responses enabled us to sort out and analyse the rest of the questions based on the profession of the respondents. Our respondents were working with, for example, investments, banking, insurance and loans. The respondents were mainly within the investment industry, more particularly 61,7% of the respondents. The **second question**, also a background question, was stated as “*How many years of experience do you have within the industry?*”. From the responses, we were able to deduce that 97.82 % of the respondents had between 3 years and 16 or more years of experience within their profession. 41,30 % of the respondents had more than 16 years of experience, which indicates that our respondents have long experience of working with the audit report. This signifies that the answers we received, are to a great extent portrayed as reliable and valid. The following questions aimed to get the respondents' opinions regarding the audit report, and based on the information, analyse how revision, on an international level, will affect the quality of communication between Swedish auditors and the users of the audit report.

**Question 3: How do you use the audit report in your profession?**

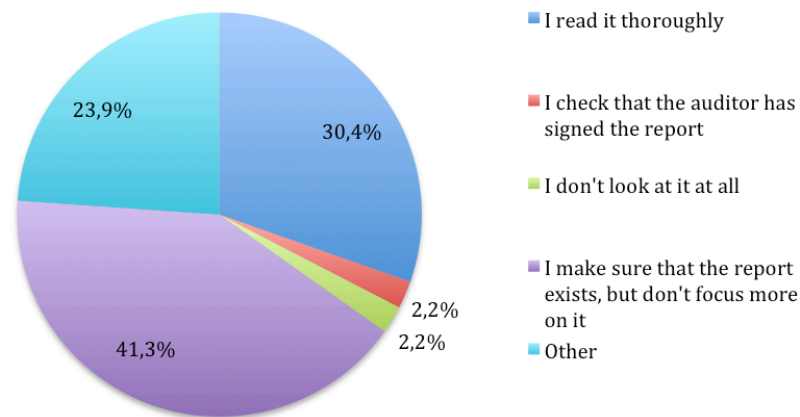


Figure 10: Stakeholder responses regarding how the audit report is used.

As seen in figure 10, most of the respondents (41,3 %) make sure that the audit report exists, but do not pay any more attention to it. 2,2 % of the respondents do not pay any attention to the report. As opposite to the previous opinions, 30,4 % of the respondents read the report very thoroughly and 23,9 % of the respondents answered “other”. The latter, was able to describe how they use the audit report in an open field. Some of the comments were, for example; that they only check if there are any abnormalities, if the report is “unqualified”, or look whether the audit report is consistent with common practice in the company. One respondent said that he just looked for italic text since the rest of the text is meaningless, while another respondent said that it depends on the current situation for the company.

**Question 4: “To what extent do you feel that the current audit report fills the functions described below?”**

	Not at all (1)		(2)		(3)		(4)		In great extent (5)		Σ	±	1	2	3	4	5	
	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%								
It provides information...	5x	10,87	11x	23,91	7x	15,22	11x	23,91	12x	26,09	3,30	1,38						
It ensures the quality...	5x	10,87	8x	17,39	12x	26,09	15x	32,61	6x	13,04	3,20	1,20						
It ensures that the comp...	33x	71,74	9x	19,57	3x	6,52	-	-	1x	2,17	1,41	0,80						
It strengthens the quality...	5x	10,87	10x	21,74	12x	26,09	12x	26,09	7x	15,22	3,13	1,24						
It ensures that the comp...	30x	65,22	8x	17,39	6x	13,04	2x	4,35	-	-	1,57	0,89						
It provides important info...	18x	39,31	16x	34,78	10x	21,74	2x	4,35	-	-	1,91	0,89						
It ensures that the comp...	9x	19,57	16x	34,78	15x	32,61	6x	13,04	-	-	2,39	0,95						
It forms a good basis...	19x	41,30	20x	43,38	7x	15,22	-	-	-	-	1,74	0,71						
It ensures the comp...	21x	45,65	10x	21,74	10x	21,74	4x	8,70	1x	2,17	2,00	1,12						

Table 6: Results that show which qualifications the respondents believe are enough regarding the current audit report.

The table for question 4 indicates which qualifications (based on the alternatives available) the respondents believe are sufficient in the current audit report. This is based on a scale from 1 (the least) to 5 (the most). The figure on the right side of the table summarizes the answers into a merged average for each option/qualification. Based on this, we can conclude that there are three qualifications which exceed an average of 3. These are the following qualifications; it provides information on whether the auditors have discovered fraud within the company, it ensures the quality of corporate financial reporting, and it confirms the quality of the audit. The qualifications that were ranked the lowest were the following; it ensures that the company will achieve its strategic goals, it ensures that the company is good to invest in, it provides important information about the company that are not in the financial statements, and it constitute a good basis for decision-making.

**Question 5:** “To what extent do you feel that the information contained in the audit report today is sufficient?”

	(1)		(2)		(3)		(4)		(5)		(6)			
	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%		
Not enough	5x	10,87	12x	26,09	11x	23,91	10x	21,74	7x	15,22	1x	2,17	Enough	
													3,11	1,32

Table 7: Results that show to what extent the respondents feel the information today is sufficient.

Based on table 7, we were able to see how the respondents felt about the current report, in regards to sufficiency. From a scale of 1 to 6, we could deduce that the average was 3,1. This means that most of the respondents consider the current report to be adequate, but are not fully satisfied with its current content.

**Question 6:** Do you think that the audit report, as means of communication, can be improved?

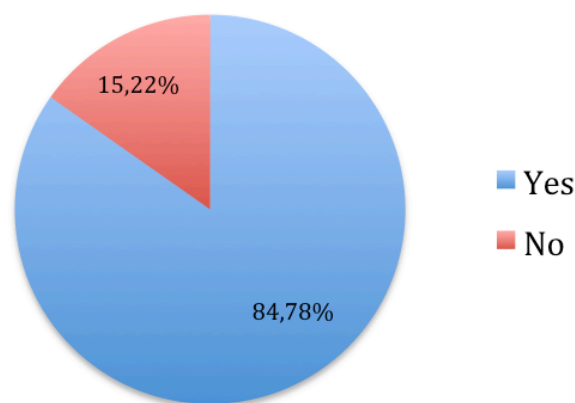


Figure 11: Stakeholder responses regarding if the audit report can be improved.

As seen in figure 11, 84,78 % of the respondents believe that the current audit report can be improved, as means of communication. On the contrary, 15,22 % of the respondents believe that the current audit report does not need any improvements at all.



**Question 7:** *“Do you have any suggestions for improvements?” (Connected to question 6, if the answer was yes)*

For question 7, the respondents did not have to answer according to specific alternatives, but were able to write their opinions freely as the question was constructed as an open field. Although the question was constructed as an optional question, there were several responses and comments.

After reading the answers, we could deduce that several of the respondents were seeking for more and improved information in the audit report. Some of the respondents pointed out the importance of clearer descriptions, for example what the auditor has focused on, and whether specific comments have been communicated to management and the company board (for example Auditor PM). Also, significant changes in the perception of the company from previous years, such as audit of internal control is requested to be covered in the audit report. One respondent wanted information regarding specific missions that the audit firm have been part of, other than audit work (like management consulting, acquisition issues and tax consulting). Another thought that the fees per major projects by the auditors should be included. In other words, more transparency is requested in the report.

One comment recurred frequently, namely that current audit reports are far too standardised. If they were to be more individualized it would be more rewarding for the users. A respondent said that the report is bland in itself, which is okay as long as the audit is okay, and another respondent claimed that the standardized text could be replaced by a simple “OK” and then the auditors could write information which is considered to be relevant. Further, a respondent stated that the auditors take way too much compensation for the standardized report. Additionally, the respondents thought that the auditors give little information about the business. In some cases, when the audit is on the line between good and bad, the auditor has a hard time giving the company, which is being audited, an unqualified audit report due to the fact that the company actually is a customer to the auditor. In a situation where the auditor leaves remarks within the audit report, this is considered to be a clear warning or indication that the company, or its management, is in poor condition.

As for the future, the respondents propose that the audit report should be constructed in a way which the grading of the audit becomes more than binary. This means that the auditor should express his/her opinion in a few categories (e.g. financial, administrative/compliance) and present these more in detail. The respondents also requested that the extent of the audit should be presented within the report. Several other respondents called for more information regarding the quality of the company, and the risks which are relevant to the company that is being audited. Further, more information regarding the auditor’s professional opinions is desired, and also clearer information regarding the abnormalities and risks for the next audit would be preferred, as well as the the materiality measurement/threshold used in the audit.

One respondent stated that he is doubtful to which features need to be revised in the report. He states that the communication in the audit report may not even be revised, but instead the possibility for external communication beyond the audit report is necessary. Another respondent thought that important strategic assets, such as trademarks and domain names and its enforcements, should be revised/checked by the auditors. She stated that the auditors review physical assets, and to some extent also intangible assets, but there are, in several companies, very large assets that are off balance sheet and are therefore not controlled. The respondent further stated that a company, today, has a lot of its value in its brand, and is using the internet as a sales channel, communication channel and a marketing channel towards its clients. But there is not enough enforcement of the rights to these channels. Now, the auditors look at IT environment in the revision, but the respondent believes that the enforcement of domain names and trademarks also should be added in the audit report.

A few respondents took it a step further and pointed out the broad spectrum of ignorance from the society and media that exists today, concerning the role of the auditor and the definition of an audit. Some of the respondents meant that the revised audit report will clarify these subjects. With the new requirements regarding the audit report, the auditors need to, more explicitly, describe the audit approaches, risk areas and the deficiencies noted in the audit of the financial statements and the management of the company. Others stated that some of the areas in the audit report are not applicable when making decisions. One respondent stated: “In my opinion, the auditors express their opinions regarding the company’s management and procedures, verifies that the results and the balance sheet correspond to the reality, and whether there are prerequisites for continuous operation of the company for some time to come. In my opinion, auditors have not the possibility to comment on the long-term sustainable business concept and business model.”

**Question 8:** “How would you assess the need for the following information in the audit report?”

	Not at all (1)		(2)		(3)		(4)		In great extent (5)		∅	±	1	2	3	4	5	
	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%								
The auditor's opinion comes...	13x	28,26	4x	8,70	16x	34,78	9x	19,57	4x	8,70	2,72	1,31						
Information regarding key...	-	-	4x	8,51	8x	17,02	20x	42,55	15x	31,91	3,98	0,92						
Information regarding signif...	1x	2,17	5x	10,87	10x	21,74	14x	30,43	16x	34,78	3,85	1,09						
Information about key audit matters...	1x	2,17	3x	6,52	20x	43,48	17x	36,96	5x	10,87	3,48	0,86						
Indications of the extent to which...	3x	6,52	4x	8,70	8x	17,39	15x	32,61	16x	34,78	3,80	1,20						
That the auditor's report is consist...	6x	13,04	14x	30,43	16x	34,78	6x	13,04	4x	8,70	2,74	1,12						
Declaration of impartiality...	4x	8,70	16x	34,78	10x	21,74	5x	10,87	11x	23,91	3,07	1,34						
An indication of whether the...	2x	4,35	2x	4,35	9x	19,57	17x	36,96	16x	34,78	3,93	1,06						

Table 8: Results that show which qualifications the respondents are missing in the audit report.

The table for question 8 indicates which qualifications (based on the alternatives available) the respondents are missing in the current audit report, on a scale from 1 to 5. The figure on the right side of the table summarizes all the answers from the respondents into a merged average for each

option/qualification. Based on this, we can conclude that the four most relevant qualifications, those who exceeded an average of 3,5, were the following; information regarding key assessed risks of material misstatement, information regarding significant uncertainty related to the company's continued operation, indications of the extent to which the auditor can detect irregularities such as fraud, and an indication of whether the auditor believes that the revised content is essentially in line with the annual report and/or the auditor's knowledge of the company. This in turn means that the qualifications which the respondents favour the least, those having an average of less than 3, were; the auditor's final opinion is placed in the beginning of the audit report, and that the audit report is consistent with EU's guidelines regarding the audit report.

**Question 9:** *“Do you have any other comments regarding the audit report? Please write them in the box below!”*

Question 9 was constructed as an open question, where the respondents were able to express any thoughts or concerns about the audit report, which had not been covered in the survey. One comment was as follows: “Since the EU standard for related services will be more restrictive than the Swedish, such additional information is valuable. Furthermore, I believe that every auditor should develop projections that are specific to the audited company and not, as now, a generic and bland audit report containing more disclaimers than comments about what is actually done. It may also be appropriate to specify how long the registered firm, or the auditor elected, have had the mandate for.” Another respondent pointed out that he/she gets the information from the auditor orally or in writing from the auditor when he/she presents the information at the board meeting in connection to the annual accounts. To collect the information in this way is working well, according to the respondent, and is considered to be very useful when evaluating the risks in the audit and the assessment regarding the company's ability to manage these risks. The last comment was stated as; “The audit report is only a confirmation that the minimum requirements are likely to be met”.

## 5.2.2 Auditors

The **first question** included in the survey for the auditors was *“Which companies do you primarily work for?”*. This question, among one more, concerned background information. These responses helped us when we analysed the answers for the rest of the survey. According to the responses, 89,3 % of the auditors were working toward small- and medium sized companies, while 7,1 % worked towards big Swedish companies, and 3,6 % worked with international companies. The **second question** was stated as *“How many years of experience do you have within the industry?”*. We were able to deduce that 71,43 % of the respondents had between 3 years and 16 or more years of experience within the audit profession, and 25 % of the respondents had more than 16 years of experience.

The following questions in the survey aimed to get the respondents' opinions regarding the audit report. Based on the information collected, we could analyse how the revision will affect the quality of communication between Swedish auditors and the users of the report.

**Question 3** - “To what extent do you feel that the current audit report fills the functions described below?”

	Not at all (1)		(2)		(3)		(4)		In great extent (5)		Ø	±	1	2	3	4	5
	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%							
It provides information...	1x	3,57	1x	3,57	1x	3,57	16x	57,14	9x	32,14	4,11	0,92					
It ensures the quality...	-	-	-	-	4x	14,29	12x	42,86	12x	42,86	4,29	0,71					
It ensures that the comp...	9x	32,14	14x	50,00	4x	14,29	1x	3,57	-	-	1,89	0,79					
It strengthens the quality...	1x	3,57	1x	3,57	8x	28,57	9x	32,14	9x	32,14	3,86	1,04					
It ensures that the comp...	9x	32,14	10x	35,71	6x	21,43	3x	10,71	-	-	2,11	0,99					
It provides important info...	3x	10,71	9x	32,14	6x	21,41	7x	25,00	3x	10,71	2,93	1,21					
It ensures that the comp...	1x	3,70	3x	11,11	12x	44,44	8x	29,63	3x	11,11	3,33	0,96					
It forms a good basis...	-	-	6x	21,43	13x	46,43	8x	28,57	1x	3,57	3,13	0,80					
It ensures the comp...	3x	10,71	3x	10,71	6x	21,43	12x	42,86	4x	14,29	3,39	1,20					

Table 9: Results that show which qualifications the respondents believe are enough regarding the current audit report.

Table 9 indicates which qualifications (based on the alternatives available) the respondents believe that the current audit report holds, on a scale from 1 to 5. The figure to the right summarizes all the answers from the respondents, taken from the table to the left, into a merged average for each option/qualification. Based on the figures, we can conclude that there are three qualifications that exceed an average of 3,5. These were the following qualifications; it provides information about whether you, as an auditor, has discovered fraud within the company, it ensures the quality of corporate financial reporting and proves quality of the audit performed. The qualifications that were ranked the lowest, under an average of 3,0, were the following; it ensures that the company will achieve its strategic goals, it ensures that the company is good to invest in, and it provides important information about the company, which is not in the financial statements.

**Question 4:** “To what extent do you feel that the information contained in the audit report today is sufficient?”

	(1)		(2)		(3)		(4)		(5)		(6)		Ø	±	1	2	3	4	5	6	
	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%									
Not enough	-	-	2x	7,14	1x	3,57	11x	39,29	9x	32,14	5x	17,86	Enough	4,50	1,07						

Table 10: Results that show to what extent the respondents feel that the information today is sufficient.

Based on table 10, we were able to deduce how the respondents felt about the current audit report. The respondents were to assess the sufficiency of the current audit report from a scale of 1 to 6. The average response was 4,5 which means that the auditors believed the information in the current report, in some extent, is sufficient. But more information is called for.

**Question 5:** *Do you think that the audit report, as means of communication, can be improved?*

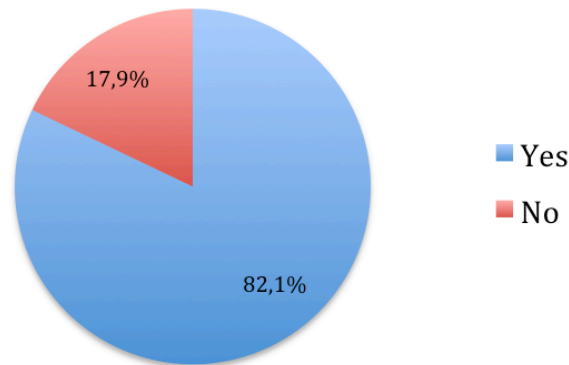


Figure 12: Auditors' responses regarding if the audit report can be improved.

Based on the figure presented for question 5, we were able to deduce that 82,1 % of the respondents believed that the current audit report, as means of communication, can be improved. As opposite, 17,9 % of the respondents believed that the current audit report does not need any improvements.

**Question 6:** *“Do you have any suggestions for improvements?” (Connected to question 6, if the answer is yes)*

Question 6 was constructed as an open question. The respondents stated that possible improvements are entirely dependent on the purpose with the audit report. If you want the audit report to be a means of communication to investors, where the company's financial position is analysed and risks highlighted, the possibilities for improvements are endless. Today, the formulation of the report is far too difficult and will require a proper way to express statements and considerations, in order for the report to be understandable by readers outside the accounting profession. Since, according to the respondents, very few business owners read the entire report, it should be minimized. The respondents also stated that the current audit report contains too much standardized and formal text, which is considered to be uninteresting for the users of the report.

**Question 7:** “How would you assess the need for the following information in the audit report?”

	Not at all (1)		(2)		(3)		(4)		In great extent (5)		Σ	±	1	2	3	4	5	
	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%								
The auditor's opinion comes...	7x	25,00	5x	17,86	9x	32,14	4x	14,29	3x	10,71	2,68	1,31						
Information regarding key...	1x	3,57	4x	14,29	12x	42,86	8x	28,57	3x	10,71	3,29	0,98						
Information regarding signif...	1x	3,57	-	-	4x	14,29	14x	50,00	9x	32,14	4,07	0,90						
Information about key audit matters...	2x	7,14	3x	10,71	8x	28,57	13x	46,43	2x	7,14	3,36	1,03						
Indications of the extent to which...	3x	10,71	6x	21,43	9x	32,14	6x	21,43	4x	14,29	3,07	1,21						
That the auditor's report is consist...	5x	17,86	6x	21,43	8x	28,57	5x	17,86	4x	14,29	2,89	1,31						
Declaration of impartiality...	4x	14,29	3x	10,71	10x	35,71	8x	28,57	3x	10,71	3,11	1,20						
An indication of whether the...	1x	3,57	1x	3,57	4x	28,57	8x	28,57	14x	50,00	4,18	1,06						

Table 11: Results that show which qualifications the respondents are missing in the audit report.

Table 11 indicates which qualifications (based on the alternatives available) the auditors believe are important in the audit report. This is illustrated from a scale of 1 to 5. The figure to the right of the table summarizes all the answers from the respondents into a merged average for each option/qualification. Based on this, we can conclude that the two most relevant qualifications, those who exceeded an average of 4, were the following qualifications; information regarding significant uncertainty related to the company's continued operation, and an indication if the auditor believes the revised content is essentially in line with the annual report and/or the auditor's knowledge of the company. This, in turn, means that the qualifications that the respondents believe are the least relevant, those having an average of less than 3, are; the auditor's opinion comes in the beginning of the audit report, and that the audit report is consistent with EU's guidelines concerning the audit report

**Question 8:** “Do you have any other comments regarding the audit report? Please write them in the box below!”

Question 8 was constructed as an open question and four of the respondents expressed their opinions. According to the respondents, it is hard to go much into detail in the audit report about what has been done by the auditor. What the respondents believe the audit report communicates is that the auditor has taken a holistic approach about the company's financial- and non-financial information, which the company present in the annual report. Thus, the auditors can ensure that the quality of the information is assured and that they are given an objective view on the company's financial situation. However, one respondent believes that auditors will not tell whether the company is good to invest in or not. Two of the respondents pointed out the language in the report, today, is far too complicated and should be informative and easier to understand, since the users do not always comprehend the content of the audit report. The audit findings should be clearer, more specific and more highlighted. For example, an auditor could propose support for the financial statements, and communicate the assumed risks. The audit report should be a confirmation of the accounts and that the annual accounts are essentially fair. Lastly, one respondent stated that “it is important that the audit report draws attention to irregularities and

errors. However, it is a dangerous way to go if you would describe the risks in detail, for each examined association.”

### 5.3 Comment letters

A document study was used as a complement to our empirical data. We studied eight comment letters to FAR’s Consultation Paper. In the Consultation Paper, FAR suggests a new design on the Swedish audit report in accordance with Swedish law, the EU audit reform, and the revised ISAs. In the paper FAR specifically asked if the implementation of the new audit report would cause any problems for the preparers and the users of financial statements and audit reports or auditors. In this section, the most significant opinions from these comment letters will be presented.

*Skatteverket*, the Swedish Tax Agency, believes the new design of the audit report is better structured than before. The statements by the auditor become clearer when the auditor's opinion is being placed as the initial statement of the report (Skatteverket, 2015).

*Bolagsverket*, the Swedish Companies Registration Office, is positive towards the development of the audit report, on the basis of EU's audit report and the work of IAASB. They believe that it is good that the auditor's statements are placed in the beginning of the audit report, since this makes it easier for the reader to gain information on the auditor's position. Since the revised audit report will become longer, it will be easier to find statements on the shortcomings and inaccuracies. They further believe that it is important for various stakeholders to be informed about the new content of the audit report, and how it should be interpreted. They also believe that it is important that auditors receive information and training on the design of the new audit report (Bolagsverket, 2015).

*Ekobrottsmyndigheten*, the Swedish Economic Crime Authority, says that there might be a risk that the users would consider the more extensive audit report to be too extensive and it is too much information to absorb. However, the Swedish Economic Crime Authority thinks that it is positive that the information in the new audit report clearly describes what the auditor considers as areas of focus, and how they have assessed these values. Furthermore, they are positive toward the section of irregularities and errors, were the auditor's ability to detect fraud and errors is clearly described. These formulations are supposed to decrease the expectation gap, which in turn means that the company's stakeholders get a more reasonable idea of what an auditor can guarantee, within a reasonable level. The Swedish Economic Crime Authority welcomes the revision and has hopes that the so-called audit expectation gap decreases. They also wish that the audit report will help to focus on relevant parts of the annual report, since this can affect the ability to investigate and prosecute crimes, such as accounting fraud, in a positive direction (Ekobrottsmyndigheten, 2015).

*Advokatsamfundet*, the Swedish Bar Association, states that they believe the transparency for the users of annual reports and audit reports will suffer due to the extent of additional information (Advokatsamfundet, 2015).

*Finansinspektionen (FI)*, the Swedish Financial Supervisory Authority, thinks that all of the mandatory disclosure requirements proposed in the examples of the audit report are particularly important for companies that provides financial services and services for the public. The assessment of the risks, and what kind of information is reviewed by the auditors (and what information that has not been audited) are examples of information that can be crucial when a user of annual- and consolidated accounts is to create an image of the company. According to FI, among the users of annual- and consolidated financial statements, it is especially small savers and consumers who should be highlighted, as well as the media who wishes to enlighten these categories. FI believes that it is particularly important that these particular users can take part of a more detailed, company-specific information in the audit report, as an essential source of information on the individual company. The content of the audit report is thereby an important contribution to the consumer protection. Thus, the new disclosure requirements regarding the revised audit report should be used by both listed companies, companies which are under the supervision of the financial sector, and for whom the requirement of auditors applies to (FI, 2015).

*Riksrevisionen*, the Swedish National Audit Office, believes that the concept of key audit matters (KAM) is interesting. They are considering to voluntarily introduce this concept for some authorities (Riksrevisionen, 2015).

*SRF konsulterna*, an association of Swedish Accounting and Payroll consultants, expresses a concern regarding the extent of the added supplementary information in the revised audit report. They mean that this information might affect the transparency for those who are users of the revised companies' annual reports (SRF konsulterna, 2015).

*Småföretagarna*, an interest group consisting of small Swedish companies, writes that the implementation of the revised audit report will unlikely cause any problems for users of financial statements and audit reports, nor for preparers of financial statements and for auditors (Småföretagarnas riksförbund, 2015).

## 5.4 Chapter summary

This chapter has presented the results from the survey and our document studies. First, the main findings regarding our document study consisting of documents released by EC, IAASB and FAR were presented. Secondly, all the questions in the survey were presented with related explanations, figures and tables. The two versions of the survey were analysed separately. Finally, the most relevant comments from the document study of comment letters by Swedish stakeholders were presented.



## 6. Discussion

*Chapter 4 presented auditing theories, literature on the information gap, the institutional context, and our analytical model. In chapter 5 our results were presented, including our document study and survey. In this chapter we are going to analyse these results, with help of the information presented in chapter 4 and 5. Our research questions will be a red thread throughout the analysis.*

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### 6.1 The international mindset

In order to analyse what the reasons underlying revision in audit reporting requirements by the IAASB and the EU are, we needed to establish a few fundamental grounds. At the dawn of the financial crisis in 2008, stakeholders all around the world demanded more information from the auditor through the audit report. Today, stakeholders comprehend that the auditor has a deep knowledge of the audited company and its environment, but want to influence that particular knowledge in order to get even more information. The IAASB has been responsive the demand through their new audit reform, which includes changes within the audit report. The purpose with the reform is to improve the quality of the communication between the auditors and stakeholders, in other words, to reduce the information gap (the gap between the information available through the audit report and information demanded by the stakeholders). In order to achieve this purpose IFAC/IAASB has, through consultation papers, tried to localize the perceived problems with the current audit report and the kind of information that stakeholders wish for the audit report to contain. According to the research done by IAASB, it was mainly institutional investors and financial analysts that demanded a more informative report (IFAC, 2012). Based on the comments from the consultation papers, several ISAs have been revised in order to better suit the stakeholders' needs and build up the communicative relevance and the value of the audit report. IAASB has changed several requirements for the audit report, which includes the implementation of one additional standard, ISA 701, which concerns auditors reporting on key audit matters, that is one of the demands from the stakeholders (IAASB, 2015). The main objective is therefore to reduce the information gap through making the audit report more transparent and the change is mainly for the users of the audit report.

According to the EU, the new reform addresses a number of shortcomings observed on the audit market, and the main problem was the extent of the information gap. Just as the IAASB, EU used a consultation paper in order to localize the things that needed to be changed in the report. With the comments from the consultation paper, the EC established a new EU regulatory framework where a new directive and regulation were presented in April 2014. EU has adopted ISAs for the application, the annual- and consolidated accounts shall be carried out through these standards adopted by the EC (EC, 2015). The EU and IAASB have the same objectives, despite the fact that EU is more internal market driven and IAASB is driven more towards the global perspective. Both authorities strive to improve the quality of communication between auditors and stakeholders, and will therefore reduce the information gap.

As figure 13 shows, when evaluating the reasons for the new audit report in Sweden one has to look at both the global perspective (including ISAs) and EU perspective (including directives and regulations). The figure also shows that the new EU Directive and Regulation are dependent on the ISAs, since EU has adopted the international standards. Today, high-quality ISAs are globally accepted. But, as Flint (1988) states, while the principles of audit may be globally applicable, the specific functions, standards, and practises are unlikely to show the same uniformity, although they should be consistent with the culture of the specific country. With this in hand, the new reform may lead to the opposite effect within EU countries, and might instead increase the information gap.



Figure 13: The relationship between international standards, EU rules, and the audit report.

To conclude, the stakeholders have requested a more informative audit report, and the regulators have now decided to take actions through a new audit reform which will affect the content and format of the current audit report. Just as Carroll (1989) explained, there is a two-way interaction or exchange of influence between the stakeholders and the business world. It is important to take the needs of the stakeholders into account, given that they are such an important part in the business world, which is what the regulators are doing as they develop the new audit report at the moment.

## 6.2 The Swedish context

This section aims to discuss how the revision of the audit report, on an international level, will affect the quality of the communication between auditors and users of the report in Sweden. Based on our empirical findings, there are differences in the opinions regarding of how the new audit report will affect the quality of communication between auditors and the users of the report. These differences will be discussed in a number of sections in order to analyse them from different perspectives. From our document study, we have deduced that the new audit regulations in Sweden are influenced by internationally revised standards and directives. Sweden is a small country that has high trust towards the Government, which sets laws, including those in regards to the audit report, and has low corruption. The audit and auditors have an important role when expressing their opinions on financial statements. The new audit reform began with that the Swedish Government decided on a council of legislation that contained proposals regarding new rules for the Swedish audit process and auditors. The proposal by the Swedish Government,

within the council of legislation, adapts the Swedish legislation to the new EU-rules. The new rules would, for example, lead to the audit report containing more information for the benefit of corporate stakeholders (Regeringskansliet, 2016). The changes of the Swedish audit report are due to changes within two regulatory systems, mainly because of the EU's audit reform, but also because of changes in the ISAs concerning the audit reform (FAR, 2015a). The ISAs will be implemented with minor add-ons, as mentioned in former chapters, and FAR has developed recommendations of how the audit report should be designed. The audit reform implies that more information is available for the users to take part of, in other words, the report will be more transparent. The question we are therefore asking is: will the communication be improved by the forthcoming implementation of the audit reform in Sweden, or not?

Since the main objective with the international reform is to reduce the audit information gap, we believe that it would be interesting to see if this concerns Sweden as well. According to Ruhnke and Schmidt (2014), the gap can be a drive for constant reform, but at the same time it can be harmful if it leads to reforms that may not be called for. Therefore, it is of great importance to evaluate how the new reform will affect the communication between Swedish actors, such as stakeholders and auditors.

### 6.2.1 The information gap in Sweden

The main objective with the international reform of the audit report is to reduce the audit information gap. Since Sweden is a member of the EU, the requirements will be introduced in the Swedish report as well. As described in chapter 4, the audit information gap is the difference between what information the auditors disclose and what information the stakeholder's demand. International research has shown the existence of an information gap, and the IAASB and the EU have therefore started to take actions in order to reduce it. Although there exists an information gap on the international level, it does not automatically mean that there exist one on a national level. Is the current change of the audit report in Sweden unnecessary? Does it even exist an information gap in Sweden? Or, is the change only due to changes on an international level? The next sections will investigate these questions further in order to see if the quality of communication between Swedish stakeholders and auditors will be improved with the new reform in force, or if it may damage the quality of communication. When analysing the existence of an information gap in Sweden and the need for a new audit report, we will have our analytical figure as a base. As seen in figure 14, there are four factors which mainly affect the extent of the Swedish information gap and these are: national requirements, FAR's recommendations, EU directives and regulations, and ISAs.

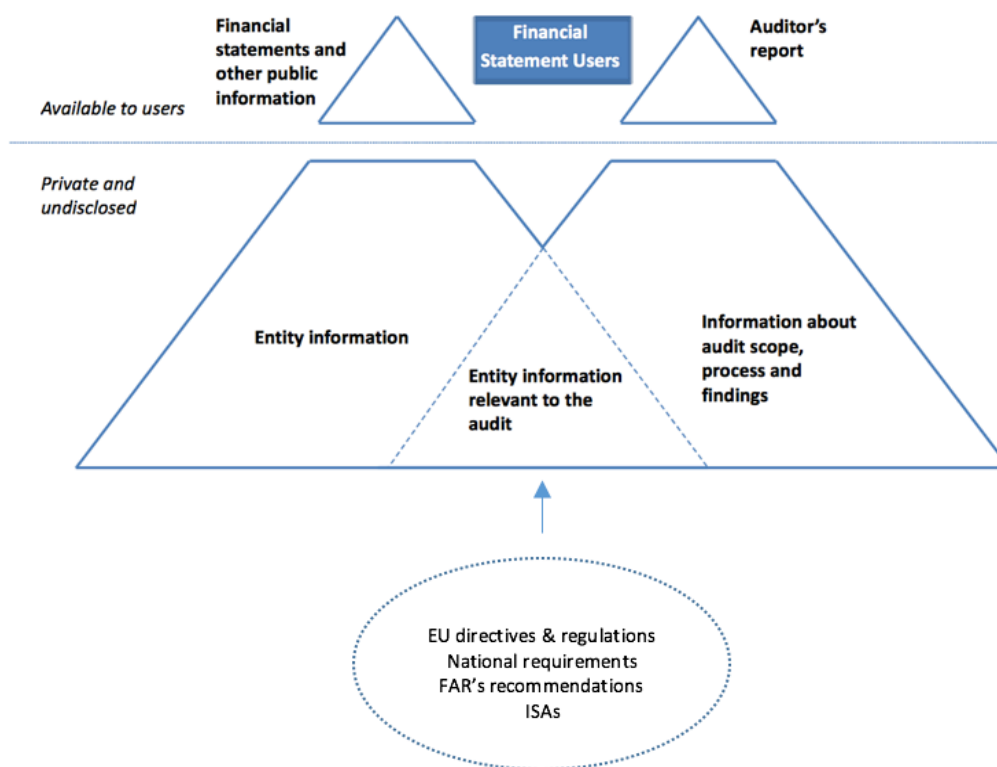


Figure 14: Our analytical model.

We will start by analysing the answers we collected through our survey. Table 12 shows qualifications of the current audit report and the respondents average for each qualification, in other words, how they value the communicated features in the current audit report. The column “differences” shows the variation between stakeholder average and auditor average. The stakeholder average was the base for calculation of the differences, which means that the numbers in red indicates that auditors average is higher than the stakeholders.

	Stakeholders	Auditors	Differences
It provides information on whether the auditors have discovered fraud within the company	3,3	4,11	<b>0,81</b>
It ensures the quality of corporate financial reporting	3,2	4,29	<b>1,09</b>
It ensures that the company will meet its strategic objectives	1,41	1,89	<b>0,48</b>
It strengthens the quality of the audit performed	3,13	3,86	<b>0,73</b>
It ensures that the company is good to invest in	1,57	2,11	<b>0,54</b>
It provides important information about the company that are not available in the Annual Reports	1,91	2,93	<b>1,02</b>
It ensures that the company is well managed	2,39	3,33	<b>0,94</b>
It forms a good basis for decision-making	1,74	3,14	<b>1,4</b>
It ensures the company's survival	2,0	3,39	<b>1,39</b>

Table 12: The difference between the stakeholders and the auditor's average for question “To what extent do you feel that the current audit report fills the functions described below?” (Scale 1-5).

Based on table 12, we can draw several conclusions. The auditor's opinions regarding the function of the current audit report differs the most from the opinions by stakeholders, where the difference exceed 1.0, for the following features; it ensures the quality of corporate financial reporting, it provides important information about the company that are not available in the Annual Reports, it forms a good basis for decision-making and it ensures the company's survival. One of the qualifications which stakeholders ranked the lowest was that the report constitutes a good good basis for decision making. We believe this is very interesting due to the fact that businesses, according to decision-making theory, base their decisions on the information available. But in our case, the auditors value this category much higher than the users of the report. Additionally, the general average for all the qualifications were 2,3 for the stakeholders and 3,7 for auditors, which also indicates that the auditors generally rank the current audit report higher than the stakeholders. This may indicate that auditor are more confident with the current audit report, than the stakeholders. Also, it might be because of the fact that the revised report will include more information, which will lead to more work for the auditors. What we can see is that the mutual dependence, in our research, is not as good as it could be. If the stakeholder needs would have been met regarding the information available in the current audit report, they should have ranked the features higher. But this is not the case as for today. Despite the fact that there are differences in how the groups value the current audit report, we can see that the stakeholders and the auditors have the same ideas of what is considered to be more significant in an audit report. Both groups value the same two categories as most valuable in connection to communicating audit, these are; it ensures the quality of corporate financial reporting and it provides information on whether the auditors have discovered fraud within the company. As for the category, which the groups do not think is clear in the current report, is that it ensures that the company will meet its strategic objectives.

Based on the ranking of the current audit report, most of the stakeholders considered the current report to adequate, but could definitively be improved. The auditors ranked the current audit report over average, which indicates that they are more pleased with the current report. Both the stakeholders and the auditors believe that the current audit report is far too standardized. The auditors stated that the current report is very difficult to read, especially for the users of the audit report and the formal text might escalate to a loss of the reader's interest. As for the stakeholders, they mentioned that the current audit report is bland in itself and that that the standardized text could be replaced by a simple "OK" and then the auditors could write the information that is relevant. These comments are in line with the findings of Gray et al. (2011) and the three categories that IOSCO (2009) summarized as the biggest problems with the current audit report, namely: expressing an opinion that is binary in nature may not be optimal for today's complex business environment; the standard audit report contains difficult technical language; and the standard audit report does not reflect the level of effort and judgment inherent in an audit.

Stakeholders claim that the current audit report is not applicable when making a decision based on financial statements, since they have expectations on auditors to express their opinions regarding the company's management and procedures. Also, to verify that the results and the balance sheet correspond to the reality, and whether there are any prerequisites for continuous operation of the company for some time to come. However, the respondents claim that auditors

do not have the possibility to comment on the long-term sustainable business concept and business model. The auditors agree on this point, since they state that they, as auditors, can ensure that the information is quality assured and that they are given an objective picture of the company's financial situation. However, they state that it is not the auditor's task to tell whether the company is a good long-term investment or not. A few stakeholders mentioned the fact that society ignores the role of the auditor and the actual meaning of an audit. One respondent claims that the auditors take way too much compensation for a standardized report, which can indicate an ignorance by the stakeholders of the entire audit process and the work it takes in order to establish an audit report. Other stakeholders claim that auditors expose too little information about the business and do, in some cases, not even give an unqualified audit report. The reasons for this being the fact that the business which has been audited, is also the customer of the auditor.

Another interesting aspect is to investigate if there are any differences between the stakeholders' opinions regarding the current report. Due to the fact that most of the respondents in this group were those who work in investments, banks or loans, we have compared their opinions. As seen in the graph below, there are some interesting differences to mention. First of all, we can see that banks are prioritizing the information on whether the auditor have discovered fraud within the company much lower than those who work with investments and loans. All of the stakeholder groups value the category "it ensures that the company will meet its strategic goals" the lowest, which means that this information is not communicated as it could be. Those who work with investments value the categories "it ensures that the company is good to invest in" and "it forms a good basis for decision-making" lower than the other groups. This may be because they are working with investments and are therefore seeking for more information regarding the possibilities of investing in different companies.

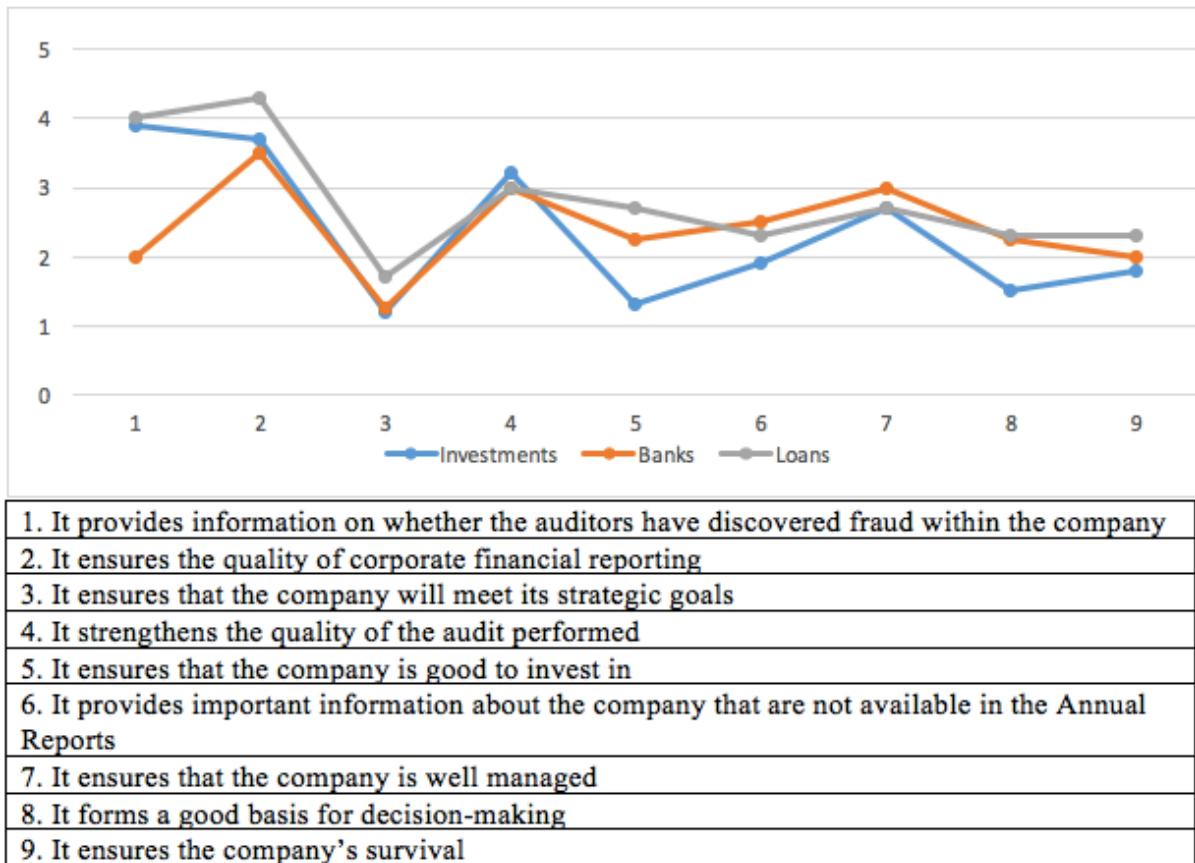


Figure 15: Different opinions within the stakeholder group regarding the current audit report.

Based on our results, we are able to conclude that auditors overall value the current audit report higher than the stakeholders, which indicates that it exists an information gap in Sweden as well. There are also differences between various stakeholders regarding some of the information included in the report. But, an important aspect to mention is that both stakeholders and auditors have the same ideas of what is important in the audit report. Based on the theory of decision usefulness, companies make decisions which are based on the information that the auditor provides in the audit report. But, as for today, companies are not willing to disclose full information to the auditors, but at the same time they are seeking for more information in the report. Therefore, one can say that it is impossible to, with one report, make all stakeholders satisfied.

### 6.2.2 A new audit report in Sweden

As mentioned in the beginning of this chapter, the international standard setters main objective in changing the audit reform is to reduce the audit information gap. On the other hand, Ruhnke and Schmidt (2014) mean that the audit reforms may only be seen as a strategy to achieve the objective for the audit profession in order to strengthen their legitimacy, mainly by filling the public's interests. After concluding that an audit information gap actually exists in Sweden, the next step is to analyse if there is an actual need for a revised audit report.

Table 14 shows different information that, according to FAR (see appendix 7), will be included in the Swedish revised audit report. In the table, the respondents average answers for how they

value the intended features of the Swedish revised audit report is presented. The column “differences” shows the difference between stakeholder average and auditor average. The average for the stakeholders was the base for calculation of the differences, which means that the numbers in red indicates that auditor average is higher than the stakeholders.

	<b>Stakeholders</b>	<b>Auditors</b>	<b>Differences</b>
The auditor's opinion comes first in the report	2,72	2,68	0,04
Information regarding key assessed risks of material misstatements	2,98	3,29	0,31
Information regarding significant uncertainty related to the company's continued operation	3,85	4,07	0,22
Information regarding key audit matters (KAM)	3,48	3,36	0,12
Indications of the extent to which the auditor can detect irregularities, such as fraud	3,80	3,07	0,73
That the auditor's report is consistent with the EU's guidelines on the auditor's report	2,74	2,89	0,15
Declaration of impartiality and independence, incl. declaration that no prohibited counselling has been conducted	3,07	3,11	0,04
An indication of whether the auditor believes that the revised content is essentially in line with the annual report and/or the auditor's knowledge of the company	3,93	4,18	0,25

Table 13: The difference between the stakeholders and the auditor's average for question “How would you assess the need for the following information in the audit report?” (Scale 1-5).

Based on table 13, we can see that for most of the categories, stakeholders and auditors have similar answers. As for the stakeholders, they believe that three of the alternatives are slightly more important in the audit report than the auditors, and these are: the auditor's opinion comes first in the report, information regarding KAM, and indications of the extent to which the auditor can detect irregularities, such as fraud. The latter, was the category that differed the most between the stakeholders and the auditors. As for the rest of the categories, the auditors ranked them higher than the stakeholders. Further, we can see that none of the categories got a ranking below 2,5, which means that all respondents see a need for more information in the report. The categories that were ranked the highest for both of the groups were; an indication of whether the auditor believes that the revised content is essentially in line with the annual report and/or the auditor's knowledge of the company, and information regarding significant uncertainty related to the company's continued operation. Both of the groups had the same opinion regarding what is least valuable in the report, namely that the auditor's opinion comes first. Based on our calculations, the general average for all the categories was 3,3 for both the stakeholders and the auditors, which indicates the need for new and improved information in the report. It also indicates that the two groups have the same ideas of what is important in the future report.

Another aspect to investigate is how stakeholders use the audit report today, in order to see if there is a need for a new one. Most of the respondents in our survey, 41,3 %, only make sure that the audit report exists and do not pay any more attention to it, and some, 2,2 % do not pay any

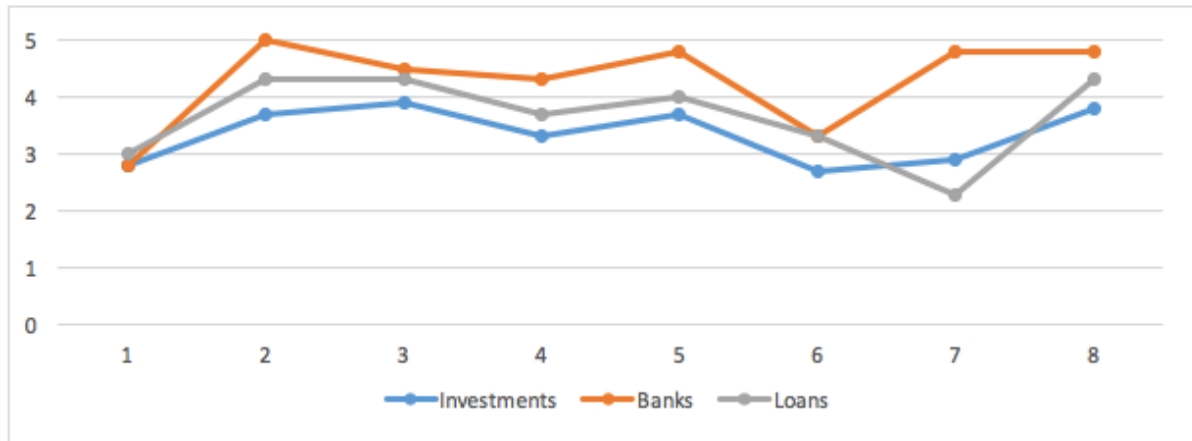


attention to it. Further, a few stakeholders only check for abnormalities, see if the report is unqualified or only look for italic text. With this result in hand we can ask ourselves why the stakeholders demand more information in the audit reports, when it seems that they do not even pay any, or very little, attention to it. The answer may be that these stakeholders believe that the content in the current report is not enough for them to benefit from. But, it is important to mention that 30,4 % of the stakeholders actually read the report thoroughly.

When the question regarding the need for a new audit report was asked, 84,8 % of the stakeholders believed that the current report can be improved, and for the auditors this number was 82,1 %. This is a clear indicator that the reform, which is soon to be reality in Sweden, is necessary due to the fact that the current report is not enough for either the stakeholders nor the auditors. This is in turn, is probably connected to the audit information gap, since information provided in the report today not is enough, and may not function as a well-functioning communication between the two parties.

The shortcomings of the current report are a big part of why there are such a need for a revised report. The stakeholders, which answered the survey, had many interesting opinions on how the report could be improved. The overall opinions were that they seek for more and improved information in the report, and that the report should be more transparent. Stakeholders are also inquiring an individualized report, which will be more rewarding in their work with companies that have been audited. Further, the grading of the audit should be more than binary, which means that the auditor shall present his/her opinion in a few categories and present them more in detail. This comments are in line with the results by Vanstraelen et al. (2012), regarding that the lack of transparency is a driver for more information in the audit report and more clarifications are sought after. Some of the respondents mean that you need to increase the external communication beyond the audit report as a way forward.

Another important factor to include in this analysis is that those who work with investments overall value the categories of information mentioned in the table below, lower than the other two stakeholder groups. All the stakeholder groups value different information as the most valuable in the revised report. Those who work in banks, believe that information regarding key assessed risks of material misstatements are the most valuable and investment firms value information regarding significant uncertainty related to the company's continued operation the most. Those who work with loans have three categories of information that they value the highest; key assessed risks of material misstatements, information regarding significant uncertainty related to the company's continued operation, and indication of whether the auditor believes that the revised content is essentially in line with the annual report and/or the auditor's knowledge of the company" the most. The largest difference between banks and the other two groups were declaration of impartiality and independence, incl. declaration that no prohibited counselling has been conducted, as seen in figure 16.



1. The auditor's opinion comes first in the report
2. Information regarding key assessed risks of material misstatements
3. Information regarding significant uncertainty related to the company's continued operation
4. Information regarding key audit matters (KAM)
5. Indications of the extent to which the auditor can detect irregularities, such as fraud
6. That the auditor's report is consistent with EU guidelines on the auditor's report
7. Declaration of impartiality and independence, incl. declaration that no prohibited counselling has been conducted
8. An indication of whether the auditor believes that the revised content is essentially in line with the annual report and/or the auditor's knowledge of the company

Figure 16: Different opinions within the stakeholder group regarding the information in the revised audit report.

The auditors looked at the question a bit differently and meant that improvements of the report are dependent on the purpose with it, and if the purpose is for it to work as a communication channel between the auditors and the investors, then the improvements are endless. The auditors agree with the stakeholders regarding the length and the language of the report. It should be more understandable for the users and it should be shorter so that more business owners read the entire report. From the auditor's perspective, they believe that it is important that they draw their attention to risks and errors, but at the same time it is a dangerous way to go if they shall describe the risks in detail for each association. We are able to deduce, from the result, that stakeholders seek for more information about the entity, and more information about the scope and findings of audit work.

Another interesting fact is that the amount of stakeholders who completed our survey exceeded the amount of auditors. As mentioned in the method chapter, this might be due to the fact that auditors are very busy during this time-period, or it might mean that stakeholders are more interested in a revised audit report than the auditors are. As for auditors, the audit report is a part of their job, and they are not as dependent on the final information within the audit report as the stakeholders are. The larger amount of stakeholders might also depend on the fact that the audit report is of great importance for their work, it is more valuable for them since they use it in order to make assessments and taking decisions.

Regarding the stakeholders, which presented their opinions concerning the revised audit report in Sweden via comment letters, did not have a unanimous view (as seen in table 14). Two of the stakeholders had an overall negative opinion about the changes due to the fact that the

transparency will suffer. This is an interesting notion since the stakeholders who answered the survey sought for more transparency in the report, and so did international stakeholders. For the other six stakeholders, which sent in comment letters, there were a united positive view on the revised audit report, and in line with what the stakeholders from the survey had to say. But, as seen in the table, there is still a need for even more information in the revised report. However, too much information can be a risk in its own. The Swedish Economic Crime Authority stressed the fact that an audit gap exists and hopes the new audit report will reduce this gap.

	<b>Structure</b>	<b>Design</b>	<b>Content</b>	<b>Positive/negative</b>
<b>The Swedish Tax Agency</b>	Better & clearer	Better	-	Positive
<b>The Swedish Companies Registration Office</b>	Better	Better	Still missing some information	Positive
<b>The Swedish Economic Crime Authority</b>	Clearer	Better	Too much information → Risk!	Positive
<b>The Swedish Bar Association</b>	-	-	Transparency will suffer	Negative
<b>The Swedish Financial Supervisory Authority</b>	Better	-	More information → better	Positive
<b>The Swedish National Audit Office</b>	-	-	Good with KAM	Positive
<b>Swedish Accounting and Payroll Consultants (SRF)</b>	-	-	Transparency will suffer	Negative
<b>"Småföretagarna" Group of small Swedish companies</b>	-	-	-	Positive

Table 14: Overview of the opinions regarding the revised audit report, taken from the comment letters.

### 6.3 Chapter summary

This chapter has analysed the findings, which we presented in chapter 5, with our analytical model as a base. First, the international and the EU revision have been discussed in order to find the reasons underlying revision in audit report requirements. Second, we have analysed how these revisions have affected the quality of communication between Swedish auditors and stakeholders. To see how communication will be affected we have focused on the extent of the audit information gap. Based on the results from the survey, an analysis has been made regarding if there is an audit information gap in Sweden, followed by a discussion regarding the need for a new audit report. The latter has been based on the results from the survey and the opinions in the comment letters.

## 7. Conclusions

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The aim of the thesis is to understand the reforms on the audit report which are set in motion on the international level and the EU level, and analyse its influence on the quality of communication between Swedish auditors and the users of the report. In order to realize the aim, the following questions were;

1. *What are the reasons underlying revision in audit report requirements by the IAASB and the EU?*
2. *How will revision, on an international level, affect the quality of communication between Swedish auditors and the users of the report?*

Regarding our first research question, the reasons for the revision in audit report requirements, by the IAASB and the EU, are mainly to improve quality of communication between auditors and users. In order to do so, the audit information gap needs to be reduced. Following the financial crisis, the users, mainly financial analysts and institutional investors, have sought for more and improved information in the audit report. To fulfil these wishes, the IAASB and the EU have done several modifications regarding audit regulations, including changes in the audit report. For example, the IAASB has implemented ISA 701 in order to get the auditors to communicate in a more informative way. The ISAs are adopted at EU level and the EU has, for example, replaced the earlier Directive 2006/43/EC with the new and improved Directive 2014/56/EU and created the new Regulation 537/2014 on “specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC”. The main objective, for both parties, is to reduce the information gap through making the audit report more transparent.

In order to answer our second research question, the factors which affect the quality of communication between auditor and stakeholders must be clarified. The revision in Sweden is due to the reform on the EU level, since Sweden is a member of the EU. Therefore, Sweden must comply with their provisions, including a revised audit report. We can conclude that there exists an audit information gap in Sweden, which in a great extent affect the quality of communication. According to the key stakeholders and the auditors, the current audit report is not sufficient and we have concluded, through our empirical data, that these groups are seeking for a more transparent audit report. Figure 17, shows how the new audit reform could affect the Swedish information gap, according to our research. Today, it is only the top of the pyramids that are available to the users (which the blue line indicates), and therefore considerable amount of information concerning the entity and the audit scope is undisclosed. This in turn affect the quality of communication between the users and auditors in a negative way. The red line in figure 17 is connected to our main findings in the thesis, namely that more information should be available in the new audit report.

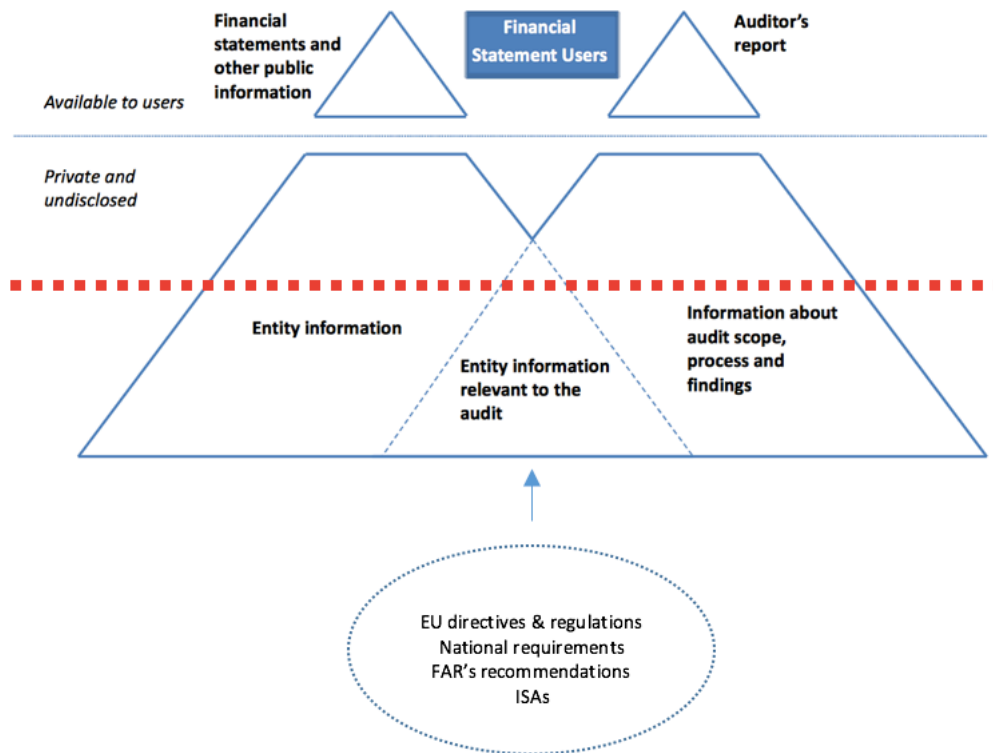


Figure 17: A modification of the analytical model, connected to our main findings.

To summarize, according to the opinions from the survey and the comment letters, most of the stakeholders and auditors believe that the new audit report is going to be too complicated and too long. However, they are seeking for more information, and a straightforward and informative report. If more information shall be available for the users, the report needs to be longer and more complex, or alternatively other documents will have to be available as a complement to the audit report.

We can conclude that a revised audit report probably will reduce the gap between what the users demand and what is actually presented in the audit report. If the information gap is reduced, the quality of the communication between the two parties will be significantly improved. However, one has to have in mind that not everyone is positive towards the new and more transparent report, which implies that the new reform may even impair the quality of communication.

## 8. Reflections & future research

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This thesis provides evidence on that deficiencies in the quality of communication between auditors and users rests on the fact that an audit information gap exists in Sweden. We are also able to conclude that there is a need for a new and revised audit report. However, the small research sample and the focus on institutional investors and financial analysts as stakeholders may build a discussion regarding the limitation to possibilities of generalization of our findings. The opinions and interests of other users of the audit report vary, which means that the result mainly reflects upon a part of the total amount of stakeholder groups located in Sweden.

Nonetheless, the limitation of a quantitative case study and a complementary document study can give rise to future research possibilities where the results identified in this thesis can be applied to other studies, and can consequently distinguish general trends.

Although several studies have been done on the audit information gap, we believe that research needs to be continued in order to come up with a conclusion to close the audit information gap. What we now ask ourselves is if the reform will lead to quality improvements regarding the communication between auditor and users of the report, or if new problems will occur. Due to the fact that the new and revised audit report in Sweden not is in force yet, we cannot answer this question. Our suggestion to future research is therefore to investigate if the new audit report (after the implementation of new regulations) have changed the outcome, improved the quality of communication, and reduced the audit information gap.

This study has looked at the output level of the the new audit reform, namely what have let to the revised audit report. We have therefore not focused on the role of the auditor and the changes made on a deeper level. This could be for future researchers to investigate further in. Also, the focus of the thesis has been on Sweden as a case country. To look at other EU countries which also have been affected by the new audit reform will be an invitation for future research as well.

Finally, we would like to conclude that other studies in this field will recognize many unexplored questions and any future researchers will be met with opportunities to further develop this field of auditing and contribute to the literature.

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# Appendix 1 - Survey: Stakeholders (Swedish)

## Sida 1

Inom vilket yrkesområde är du verksam?

Ex. investment, lån

## Sida 2

Hur många års erfarenhet har du i branschen?

0-2

3-5

6-10

11-15

16+

## Sida 3

Hur använder du revisionsberättelsen i in yrkesroll?

Jag läser noggrant igenom den

Jag ser till att den finns, men lägger inte mer fokus på den

Jag tittar bara på om revisorn har skrivit under

Jag tittar inte alls på den

Annat (vänligen förklara)

## Sida 4

Till vilken grad anser du att den nuvarande revisionsberättelsen fyller de funktioner som beskrivs nedan?

	1. Inte alls	2.	3.	4.	5. I stor grad
Den ger information om huruvida revisorema upptäckt bedrägerier inom företaget	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den kvalitetssäkrar företagets finansiella rapportering	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den säkerställer att företaget kommer att nå sina strategiska mål	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den styrker kvaliteten på den genomförda revisionen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den säkerställer att företaget är bra att investera i	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den ger viktig information om företaget som inte finns i årsredovisningen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den säkerställer att företaget är välskött	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den utgör bra underlag för beslutsfattande	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den säkerställer företagets fortlevnad	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Sida 5

I hur stor utsträckning anser du att informationen som finns i revisionsberättelsen idag är tillräcklig?

1. 2. 3. 4. 5. 6.

Inte alls tillräcklig       Fullt tillräcklig

## Sida 6

Tycker du att revisionsberättelsen som kommunikationsmedel kan förbättras?

- ja  
 nej

## Sida 7

Har du några förslag på förbättringar?

Om inte, gå till nästa fråga.

## Sida 8

Hur skulle du värdera behovet av följande information i revisionsberättelsen?

	1. Ej relevant	2.	3.	4.	5. Mycket relevant
Att revisorns åsikt kommer först i berättelsen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Information gällande de viktigaste bedömda riskerna för väsentliga felaktigheter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Information gällande väsentlig osäkerhetsfaktor hänförlig till företagets fortsatta drift	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Information gällande särskilt betydelsefulla områden	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Indikationer på i vilken utsträckning revisorn kan upptäcka oegentligheter, såsom bedrägeri	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Att revisionsberättelsen är förenlig med EU's riktlinjer gällande revisionsberättelsen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Försäkran om opartiskhet och självständighet, inkl. försäkran om att ingen förbjuden rådgivning har utförts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
En indikation på om revisorn anser att det reviderade innehållet i huvudsak är i linje med årsredovisningen och/eller revisorns kunskap om bolaget	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



## Sida 9

Har du några andra kommentarer gällande revisionsberättelsen? Skriv gärna dem i rutan nedan!

## Sida 10

Tack för att du deltog i vår undersökning.

Vill du ta del av vår slutgiltiga uppsats, var vänlig skriv din e-mail i rutan nedan.

Tack!

Med vänliga hälsningar,

Anna Wallin ([anna.wallin1@hotmail.com](mailto:anna.wallin1@hotmail.com)) & Emelle Jörlöv ([emellejorlov@gmail.com](mailto:emellejorlov@gmail.com))

## Appendix 2 - Survey: Stakeholders (English)

**1. *Within which occupational field do you operate?***

**2. *How many years of experience do you have within the industry?***

- 1 - 0-2
- 2 - 3-5
- 3 - 6-10
- 4 - 11-15
- 5 - 16+

**3. *How do you use the audit report within your profession?***

- 1 - I read it thoroughly
- 2 - I make sure that the audit report exists, but don't focus more on it
- 3 - I check if the auditor has signed the report
- 4 - I don't look at it at all
- 5 - Other... (Describe!)

**4. *To what extent do you feel that the current audit report fills the functions described below?***  
(Scale of 1-5)

- 1 - It provides information on whether the auditors have discovered fraud within the company
- 2 - It ensures the quality of corporate financial reporting
- 3 - It ensures that the company will meet its strategic objectives
- 4 - It strengthens the quality of the audit performed
- 5 - It ensures that the company is good to invest in
- 6 - It provides important information about the company that are not available in the Annual Reports
- 7 - It ensures that the company is well managed
- 8 - It forms a good basis for decision-making
- 9 - It ensures the company's survival

**5. *To what extent do you feel that the information contained in the audit report today is sufficient?***  
(Scale of 1-5)

**6. *Do you think that the audit report, as means of communication, can be improved?***

- 1 - Yes
- 2 - No

**7. *Do you have any suggestions for improvements?***

**8. *How would you assess the need for the following information in the audit report?***  
(Scale of 1-5)

- 1 - The auditor's opinion comes first in the report
- 2 - Information regarding key assessed risks of material misstatements
- 3 - Information regarding significant uncertainty related to the company's continued operation
- 4 - Information regarding key audit matters (KAM)
- 5 - Indications of the extent to which the auditor can detect irregularities, such as fraud
- 6 - That the audit report is consistent with the EU's guidelines on the audit report
- 7 - Declaration of impartiality and independence, incl. declaration that no prohibited counselling has been conducted
- 8 - An indication of whether the auditor believes that the revised content is essentially in line with the annual report and/or the auditor's knowledge of the company

***9. Do you have any other comments regarding the audit report? Please write them in the box below!***

# Appendix 3 - Survey: Auditors (Swedish)

## Revisionsreformen

### Sida 1

Vilka bolag arbetar du främst gentemot?

- Små- & medelstora svenska bolag
- Stora svenska bolag
- Internationella bolag
- Annat...

### Sida 2

Har många års erfarenhet har du i branschen?

- 0-2
- 3-5
- 6-10
- 11-15
- 16+

### Sida 3

Till vilken grad anser du att den nuvarande revisionsberättelsen fyller de funktioner som beskrivs nedan?

	1. Inte alls	2.	3.	4.	5. I stor grad
Den ger information om huruvida du, som revisor, har upptäckt bedrägerier inom företaget	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den kvalitetssäkrar företagets finansiella rapportering	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den säkerställer att företaget kommer att nå sina strategiska mål	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den styrker kvaliteten på den genomförda revisionen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den säkerställer att företaget är bra att investera i	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den ger viktig information om företaget som inte finns i årsredovisningen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den säkerställer att företaget är välskött	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den utgör bra underlag för beslutsfattande	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Den säkerställer företagets fortlevnad	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Sida 4

I hur stor utsträckning anser du att informationen som finns i revisionsberättelsen idag är tillräcklig?

1. 2. 3. 4. 5. 6.

Inte alls tillräcklig       Tillräcklig

## Sida 5

Tycker du att revisionsberättelsen som kommunikationsmedel kan förbättras?

ja

nej

## Sida 6

Har du några förslag på förbättringar?

Om inte, gå till nästa fråga.

Hur skulle du värdera behovet av följande information i revisionsberättelsen?

	1. Ej relevant	2.	3.	4.	5. Mycket relevant
Att din åsikt, som revisor kommer först i berättelsen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Information gällande de viktigaste bedömda riskerna för väsentliga felaktigheter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Information gällande väsentlig osäkerhetsfaktor hänförlig till företagets fortsatta drift	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Information gällande särskilt betydelsefulla områden	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Indikationer på i vilken utsträckning du som revisor kan upptäcka oegentligheter, såsom bedrägeri	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Att revisionsberättelsen är förenlig med EU's riktlinjer gällande revisionsberättelsen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Försäkran om opartiskhet och självständighet, inkl. försäkran om att ingen förbjuden rådgivning har utförts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
En indikation på om du som revisor anser att det reviderade innehållet i huvudsak är i linje med årsredovisningen och/eller revisorns kunskap om bolaget	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Sida 8

Har du några andra kommentarer gällande revisionsberättelsen? Skriv gärna dem i rutan nedan!

## Sida 9

Tack för att du deltog i vår undersökning.

Vill du ta del av vår slutgiltiga uppsats, var vänlig skriv din e-mail i rutan nedan.

Tack!

Med vänliga hälsningar,

Anna Wallin ([anna.wallin1@hotmail.com](mailto:anna.wallin1@hotmail.com)) & Emelie Jörlöv ([emeliejorlov@gmail.com](mailto:emeliejorlov@gmail.com))

## Appendix 4 - Survey: Auditors (English)

### 1. *Which companies do you primarily work towards?*

- 1 - Small & medium sized Swedish companies
- 2 - Large Swedish companies
- 3 - International companies
- 4 - Others... (Describe!)

### 2. *How many years of experience do you have within the industry?*

- 1 - 0-2
- 2 - 3-5
- 3 - 6-10
- 4 - 11-15
- 5 - 16+

### 3. *To what extent do you feel that the current audit report fills the functions described below?* (Scale of 1-5)

- 1 - It provides information on whether the auditors have discovered fraud within the company
- 2 - It ensures the quality of corporate financial reporting
- 3 - It ensures that the company will meet its strategic objectives
- 4 - It strengthens the quality of the audit performed
- 5 - It ensures that the company is good to invest in
- 6 - It provides important information about the company that are not available in the Annual Reports
- 7 - It ensures that the company is well managed
- 8 - It forms a good basis for decision-making
- 9 - It ensures the company's survival

### 4. *To what extent do you feel that the information contained in the audit report today is sufficient?* (Scale of 1-5)

### 5. *Do you think that the audit report, as means of communication, can be improved?*

- 1 - Yes
- 2 - No

### 6. *Do you have any suggestions for improvements?*

### 7. *How would you assess the need for the following information in the audit report?* (Scale of 1-5)

- 1 - The auditor's opinion comes first in the report
- 2 - Information regarding key assessed risks of material misstatements
- 3 - Information regarding significant uncertainty related to the company's continued operation
- 4 - Information regarding key audit matters (KAM)

- 5 - Indications of the extent to which the auditor can detect irregularities, such as fraud
- 6 - That the audit report is consistent with the EU's guidelines on the audit report
- 7 - Declaration of impartiality and independence, incl. declaration that no prohibited counselling has been conducted
- 8 - An indication of whether the auditor believes that the revised content is essentially in line with the annual report and/or the auditor's knowledge of the company

**8. Do you have any other comments regarding the audit report? Please write them in the box below!**



# Appendix 5 - Illustration of the current audit report (ISA 700)

(IFAC, 2009)

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### **Report on the Financial Statements<sup>1</sup>**

We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's<sup>2</sup> Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards,<sup>3</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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<sup>1</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>2</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>3</sup> Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>4</sup> of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>5</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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<sup>4</sup> In the case of footnote 28, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control."

<sup>5</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 28, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."



## Appendix 6 - ISA revised audit report

### Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit conducted in accordance with ISA 600.
- The financial statements are prepared for a general purpose by management of the entity in accordance with International Financial Reporting Standards (IFRSs).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Key audit matters have been communicated in accordance with proposed ISA 701.
- No material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern has been identified in accordance with proposed ISA 570.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

Paragraph references below are to the relevant requirements in this ISA.

### **INDEPENDENT AUDITOR’S REPORT** (para. 21)

To the Shareholders of ABC Company [or Other Appropriate Addressee] (para. 22)

### **Report on the Audit of the Financial Statements**<sup>32</sup>

#### **Opinion** (paras. 23–27)

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of ABC Company (the Company) as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

#### **Basis for Opinion** (para. 28)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. **We are independent of the Company** within the meaning of [*indicate relevant ethical requirements or applicable law or regulation*] and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

<sup>32</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.



**Key Audit Matters** (para. 30 and paras. 9–11 of proposed ISA 701)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

*The two specific topics and content presented below are purely for illustrative purposes. This section would be tailored to the facts and circumstances of the individual audit engagement and the entity. Accordingly, the IAASB has intentionally drafted these examples in a manner that illustrates that Key Audit Matters will vary in terms of the number and selection of topics addressed and the nature in which they may be described, and are intended to be consistent with the disclosures in the entity's financial statements.*

*Valuation of Financial Instruments*

The Company's disclosures about its structured financial instruments are included in Note 5. The Company's investments in structured financial instruments represent *[x%]* of the total amount of its financial instruments. Because the valuation of the Company's structured financial instruments is not based on quoted prices in active markets, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit. The Company has determined it is necessary to use an entity-developed model to value these instruments, due to their unique structure and terms. We challenged management's rationale for using an entity-developed model, and discussed this with *[those charged with governance]*, and we concluded the use of such a model was appropriate. Our audit procedures also included, among others, testing management's controls related to the development and calibration of the model and confirming that management had determined it was not necessary to make any adjustments to the output of the model to reflect the assumptions that marketplace participants would use in similar circumstances.

*Revenue Recognition Relating to Long-Term Contracts*

The terms and conditions of the Company's long-term contracts in its *[name of segment]* affect the revenue that the Company recognizes in a period, and the revenue from such contracts represents a material amount of the Company's total revenue. The process to measure the amount of revenue to recognize in the *[name of industry]*, including the determination of the appropriate timing of recognition, involves significant management judgment. We identified revenue recognition of long-term contracts as a significant risk requiring special audit consideration. This is because side agreements may exist that effectively amend the original contracts, and such side agreements may be inadvertently unrecorded or deliberately concealed and therefore present a risk of material misstatement due to fraud. In addition to testing the controls the Company has put in place over its process to enter into and record long-term contracts and other audit procedures, we considered it necessary to confirm the terms of these contracts directly with customers and testing journal entries made by management related to revenue recognition. Based on the audit procedures performed, we did not find evidence of the existence of side agreements. The Company's disclosures about revenue recognition are included in the summary of significant accounting policies in Note 1, as well as Note 4.

**Going Concern** (para. 29 and paras. 19–25 of proposed ISA 570 (Revised))

The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we

have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

#### **Other Information** (para. 31)

*[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]*

#### **Responsibilities of [Management<sup>33</sup> and Those Charged with Governance or other appropriate terms] for the Financial Statements** (paras. 32–34)

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs,<sup>34</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. *[Those charged with governance]* are responsible for overseeing the Company's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements** (paras. 35–40)

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The shaded material below can be located in an Appendix to the auditor's report (see paragraph 39 of this ISA). When law, regulation or national auditing standards expressly permits, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report (see paragraph 40 of this ISA).

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit

<sup>33</sup> Throughout the illustrative auditor's reports in the Proposed ISAs, the term management may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. For example, those charged with governance, rather than management, may have these responsibilities.

<sup>34</sup> Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and for such ..."



evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>35</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with *[those charged with governance]* regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide *[those charged with governance]* with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### **Report on Other Legal and Regulatory Requirements** (para. 41)

*[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. Depending on the matters addressed by other law, regulation or national auditing standards, national standard setters may choose to combine reporting on these matters with reporting as required by the ISAs (shown in the Report on the Audit of the Financial Statements section), with wording in the auditor's report that clearly distinguishes between reporting required by the ISAs and other reporting required by law or regulation.]*

The engagement partner responsible for the audit resulting in this independent auditor's report is *[name]*.  
(para. 42)

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]* (para. 43)

*[Auditor Address]* (para. 44)

*[Date]* (para. 45)

---

<sup>35</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

# Appendix 7 - The Swedish revised audit report (suggestion by FAR)

(FAR, 2012)

**Revisionsberättelse**  
Till årsstämman i ABC AB, org.nr 556xxx-xxxx

**Rapport om årsredovisningen och koncernredovisningen**  
Vi har reviderat årsredovisningen och koncernredovisningen för ABC AB för år 2014 med undantag för bolagsstyrningsrapporten på sidorna 69-71. Bolagets årsredovisning och koncernredovisning ingår i den tryckta versionen av detta dokument på sidorna 50-100.

**Styrelsens och verkställande direktörens ansvar för årsredovisningen och koncernredovisningen**  
Det är styrelsen och verkställande direktören som har ansvaret för att upprätta en årsredovisning som ger en rättvisande bild enligt årsredovisningslagen och en koncernredovisning som ger en rättvisande bild enligt internationella redovisningsstandarder, såsom de antagits av EU, och årsredovisningslagen, och för den interna kontroll som styrelsen och verkställande direktören bedömer är nödvändig för att upprätta en årsredovisning och koncernredovisning som inte innehåller väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller på fel.

**Revisorns ansvar**  
Vårt ansvar är att uttala oss om årsredovisningen och koncernredovisningen på grundval av vår revision i enlighet med det uppdrag årsstämman i ABC AB gav oss den 15 maj 2014. Vårt revisionsuppdrag inleddes ursprungligen den 12 maj 2011 och har därefter förlängts med ett år i taget. Vårt ansvar är även att uttala oss om moderbolagets och koncernens förutsättningar för fortsatt drift inom överskådlig framtid samt att lämna en bedömning av bolagets interna kontroll för upprättande av årsredovisning och koncernredovisning.  
Vi har utfört revisionen enligt International Standards on Auditing och god revisionsråd i Sverige. Dessa standarder kräver att vi följer yrkesetiska krav samt planerar och utför revisionen för att uppnå rimlig säkerhet att årsredovisningen och koncernredovisningen inte innehåller väsentliga felaktigheter, samt att uppnå begränsad säkerhet om dels moderbolagets och koncernens förutsättningar för fortsatt drift, dels att inga väsentliga brister föreligger i den interna kontrollen för upprättande av årsredovisning och koncernredovisning.  
Vi har i såväl planering som slutförande av revisionen tillämpat en väsentlighetsnivå på 120 miljoner kronor för årsredovisningen i sin helhet. Beträffande årsredovisningens icke-finansiella information har vi bedömt om felaktigheter i denna del kan påverka användarnas ekonomiska beslut fattade med grund i årsredovisningen.

En revision innefattar att genom olika åtgärder inhämta revisionsbevis om belopp och annan information i årsredovisningen och koncernredovisningen. Revisorn väljer vilka åtgärder som ska utföras, bland annat genom att bedöma riskerna för väsentliga felaktigheter i årsredovisningen och koncernredovisningen, vare sig dessa beror på oegentligheter eller på fel. Vid denna riskbedömning beaktar revisorn de delar av den interna kontrollen som är relevanta för hur bolaget upprättar årsredovisningen och koncernredovisningen för att ge en rättvisande bild i syfte att utforma granskningsåtgärder som är ändamålsenliga med hänsyn till omständigheterna, men inte i syfte att göra ett uttalande om effektiviteten i bolagets interna kontroll. En revision innefattar också en utvärdering av ändamålsenligheten i de redovisningsprinciper som har använts och av rimligheten i styrelsens och verkställande direktörens uppskattningar i redovisningen, liksom en utvärdering av den övergripande presentationen i årsredovisningen och koncernredovisningen.  
Revisorn bedömer även risker för oegentligheter baserat på en professionellt skeptisk inställning och utreder eventuella misstankar om oegentligheter.  
Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

**Uttalanden**  
Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av moderbolagets finansiella ställning per den 31 december 2014 och av dess finansiella resultat och kassaflöden för året enligt årsredovisningslagen, och koncernredovisningen har upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av koncernens finansiella ställning per den 31 december 2014 och av dess resultat och kassaflöden enligt internationella redovisningsstandarder, såsom de antagits av EU, och årsredovisningslagen. Våra uttalanden omfattar inte bolagsstyrningsrapporten på sidorna 69-71. Förvaltningsberättelsen är förenlig med årsredovisningens och koncernredovisningens övriga delar.  
Grundat på vår granskning har det inte framkommit några omständigheter som ger oss anledning att ifrågasätta bolagets eller koncernens förutsättningar för fortsatt drift inom överskådlig framtid.  
Grundat på vår granskning av bolagets interna kontroll för upprättande av årsredovisning och koncernredovisning, har det inte framkommit några omständigheter som ger oss anledning att påpeka väsentliga brister.  
Vi tillstyrker därför att årsstämman fastställer resultaträkningen och balansräkningen för moderbolaget och koncernen.

**Övriga upplysningar**  
Vi har identifierat varulager och garantiavsättningar som områden med störst risk för felaktigheter i såväl årsre-

a. Namn på företaget.

b. Vad har granskats.

g. Ramverk för redovisning.

d. Revisorns uppdragsgivare.

e. Uppdragets varaktighet.

l. Fortsatt drift.

m. Intern kontroll.

f. Tillämpning av ISA.

l. Fortsatt drift.

m. Intern kontroll.

j. Väsentlighetsnivå.

n. Oegentligheter.

t. Rättvisande bild.

v. Förenlighet med förvaltningsberättelse – årsredovisningen i övrigt.

l. Fortsatt drift.

m. Intern kontroll.

dovisningen som koncernredovisningen. Därtill hör aktier i dotterbolag och goodwill till områden med stor risk för felaktigheter i årsredovisningen respektive koncernredovisningen. Vad gäller varulagret har ej orderbunden tillverkning ökat vilket har föranlett en ingående prövning av företagsledningens inkuransbedömning.

Genom granskning av den interna kontrollen inom försäljning, varuinköp, varulager, kundfordringar och leverantörsskulder har substansgranskning av dessa poster kunnat begränsas. Detta innebär ingen väsentlig förändring jämfört med föregående år.

Under räkenskapsåret har vi även genomfört följande bestyrkandeuppdrag:

Översiktlig granskning av delårsrapport för perioden 1 januari - 30 juni 2014 och översiktlig granskning av bolagets hållbarhetsredovisning för år 2014 samt lagstadgade uttalanden med rimlig säkerhet vid bolagets inlösen av aktier. Särskild rapportering har gjorts för dessa bestyrkandeuppdrag.

Förutom revisionsuppdraget och ovan angivna bestyrkandeuppdrag har vi endast utfört tjänster som i förväg godkännts av bolagets revisionsutskott eller, i förekommande fall, av behörig myndighet.

Tjänster som godkännts av revisionsutskottet är biträde vid bolagets rekrytering av ledande befattningshavare respektive vid upprättande av underlag till bolagets emissionsprospekt.

Tjänster som godkännts av behörig myndighet är biträde vid utformning och införande av nytt ekonomisystem respektive due diligence-tjänster i samband med bolagets förvärv av DEF AB.

Revisionen av årsredovisningen och koncernredovisningen har utförts på ett oberoende sätt. Förutom undertecknade, auktoriserad revisor Lennart Iredahl (huvudansvarig) och auktoriserad revisor Dan Brännström, har följande personer som alla bedömts vara oberoende och sakna direkt eller indirekt intresse i ABC AB eller närstående företag medverkat vid revisionen: auktoriserad revisor Anders Andersson, auktoriserad revisor Anna Annasson, auktoriserad revisor Bertil Bertilsson, auktoriserad revisor Berta Bertasson, övriga teammedlemmar Carl Carlsson, Carin Carinsson, David Davidsson, Doris Dorisson, Erik Eriksson, Eva Evasson, Frans Fransson, Fanny Fannysson och Göran Göransson samt skattespecialisterna Harald Haraldsson, Hilda Hildasson och Ivar Ivarsson respektive IT-specialisterna Ines Inesson, Johan Johansson och Karin Karlsson. Vidare har följande revisorer medverkat vid revisionen av koncernens verksamheter i Tyskland: Grete Klein, Klaus Schmidt, Gertrude Feld, Günther Schneider, Helmut Gross och Ingeborg Sonntag, i Storbritannien: John Johnson, Susan Simpson och Jane Jones samt i USA: Brad Bradley, Todd Thompson, Britney Spears-Brown och Hilary J Hobson.

Våra uttalanden i denna revisionsberättelse är förenliga med vår lagstadgade rapportering till revisionsutskottet. Den rapporteringen omfattar vårt val av metod för revisionsmässiga urval, vår bedömning av tillämpade värderingsmetoder, information om garantiåtaganden m.m. som påverkar bedömningen av förutsättningarna för fortsatt drift liksom en bekräftelse på vårt deltagande vid fysisk inventering av koncernföretagens varulager.

I det tryckta dokumentet anges på sidorna 18-20 uppgifter om koncernens kostnader för forskning och utveckling, vilka är väsentligt oförenliga med den bild som koncernredovisningen ger. Jämfört med koncernens resultaträkning har sådana kostnader angetts med ett 100 miljoner kronor för högt belopp. Avvikelsen beror på att informationen baseras på en felaktig version av koncernens resultaträkning.

#### Rapport om andra krav enligt lagar och andra författningar

Utöver vår revision av årsredovisningen och koncernredovisningen har vi även reviderat förslaget till dispositioner beträffande bolagets vinst eller förlust, samt styrelsens och verkställande direktörens förvaltning för ABC AB för år 2014. Vi har även utfört en lagstadgad genomgång av bolagsstyrningsrapporten.

#### Styrelsens och verkställande direktörens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust, och det är styrelsen och verkställande direktören som har ansvaret för förvaltningen enligt aktiebolagslagen samt att bolagsstyrningsrapporten på sidorna 69-71 är upprättad i enlighet med årsredovisningslagen.

#### Revisorernas ansvar

Vårt ansvar är att med rimlig säkerhet uttala oss om förslaget till dispositioner beträffande bolagets vinst eller förlust och om förvaltningen på grundval av vår revision. Vi har utfört revisionen enligt god revisionssed i Sverige. Som underlag för vårt uttalande om styrelsens förslag till dispositioner beträffande bolagets vinst har vi granskat styrelsens motiverade yttrande samt ett urval av underlagen för detta för att kunna bedöma om förslaget är förenligt med aktiebolagslagen.

Som underlag för vårt uttalande om ansvarsfrihet har vi utöver vår revision av årsredovisningen och koncernredovisningen granskat väsentliga beslut, åtgärder och förhållanden i bolaget för att kunna bedöma om någon styrelseledamot eller verkställande direktören är ersättningskyldig mot bolaget. Vi har även granskat om någon styrelseledamot eller verkställande direktören på annat sätt har handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vi anser att de revisionsbevis vi inhämtat enligt ovan är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Därutöver har vi läst bolagsstyrningsrapporten och baserat på denna läsning och vår kunskap om bolaget och koncernen anser vi att vi har tillräcklig grund för våra uttalanden. Detta innebär att vår lagstadgade genomgång av

k. Störst risk för felaktigheter.

h. Revisionsmetod.

i. Ändring av metod.

c. Andra bestyrkandeuppdrag.

q. Oberoende och teamet.

r. Av revisionsutskottet godkänd rådgivning.

s. Av myndighet godkänd rådgivning.

q. Oberoende och teamet.

p. Rapport till revisionsutskottet.

u. Uppmärksammade förhållanden.

o. Efterlevnad av regler.



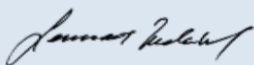
bolagsstyrningsrapporten har en annan inriktning och en väsentligt mindre omfattning jämfört med den inriktning och omfattning som en revision enligt International Standards on Auditing och god revisionssed i Sverige har.

*Uttalanden*

Vi tillstyrker att årsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter och verkställande direktören ansvarsfrihet för räkenskapsåret.

En bolagsstyrningsrapport har upprättats, och dess lagstadgade information är förenlig med årsredovisningens och koncernredovisningens övriga delar.

Trollhättan den 31 mars 2015  
Revisorerna i Sverige AB



Lennart Iredahl  
Auktoriserad revisor



Dan Brännström  
Auktoriserad revisor

w. Revisorernas  
hemort.